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Audit Case Number	98-CH-202-1002

TO: Thomas S. Marshall, Director , Public Housing Hub, Cleveland Area Office  
Lana Vacha, Director of Community Planning and Development, Ohio State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Warren Metropolitan Housing Authority  
Comprehensive Audit  
Lebanon, Ohio

We completed an audit of the Warren Metropolitan Housing Authority. The objectives of our audit were to: (1) determine if the Authority maintained its units in a decent, safe, and sanitary manner; (2) determine whether the Authority managed its Section 8 Program effectively and followed HUD contract and applicable regulations; (3) assess whether the Housing Authority had adequate internal controls for safeguarding cash and other monetary assets and inventory; (4) establish, if appropriate, the amount of any misappropriation, their causes, and the individuals involved; (5) evaluate the propriety of expenditures from Supportive Housing Program monies; and (6) assess the appropriateness of the Authority's contracting process. We performed the audit based on the results of an Operation Safe Home Probe of the Housing Authority.

We found that the Executive Director and the Board of Commissioners did not operate the Housing Authority in accordance with program requirements; units had health and safety violations; the Authority inappropriately paid \$92,824 for legal and unsupported expenses; purchasing and contracting requirements were not followed; controls over payroll were not adequate; insurance procedures needed improvement; tenant accounts receivable efforts were inadequate; the Authority lacked an acceptable cost allocation plan; the Authority did not follow its travel requirements; lease requirements were not adhered to; and the personnel practices followed were not adequate. As a result, HUD lacks assurance that resources were used to the maximum extent to benefit low and moderate income tenants.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312)353-7832.

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# Executive Summary

We completed an audit of the Warren Metropolitan Housing Authority. We selected the Housing Authority for audit based on the results of an Operation Safe Home Probe. The audit objectives were to: (1) determine if the Authority maintained its units in a decent, safe, and sanitary manner; (2) determine whether the Authority managed its Section 8 Program effectively and followed HUD contract and applicable regulations; (3) assess whether the Housing Authority had adequate internal controls for safeguarding cash and other monetary assets and inventory; (4) establish, if appropriate, the amount of any misappropriation, their causes, and the individuals involved; (5) evaluate the propriety of expenditures from Supportive Housing Program monies; and (6) assess the appropriateness of the Authority's contracting process.

The Housing Authority's internal controls were weak, and offered opportunity for its employees to misuse or divert Authority funds; however, **we did not find that employees diverted funds.** We found that the Executive Director and the Board of Commissioners did not operate the Housing Authority in accordance with program requirements; units had health and safety violations; the Authority inappropriately paid \$92,824 for legal and unsupported expenses; purchasing and contracting requirements were not followed; controls over payroll were not adequate; insurance procedures needed improvement; tenant accounts receivable efforts were inadequate; the Authority lacked an acceptable cost allocation plan; the Authority did not follow its travel requirements; lease requirements were not adhered to; and the personnel practices followed were not adequate.

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## The Authority Was Not Operated According To Program Requirements

The Director did not follow HUD's requirements, Office of Management and Budget Circular A-87, or the Authority's own policies. The Board of Commissioners did not adequately oversee the administration of the Authority. The Authority did not conduct quality control reviews of Section 8 unit inspections, permitted the payment of legal expenses using public funds against HUD's instructions, and did not implement adequate controls over expenditures.

## Units Had Health And Safety Violations

Forty-one of the 59 (69 percent) units inspected by HUD and OIG had a total of 208 violations. HUD's Construction Analysts and OIG determined that 146 of the 208 violations existed at the time of the Housing Authority's last inspection.

## Inappropriately Paid \$92,824 For Legal And Unsupported Expenses

The Authority paid \$87,757 for legal expenses even though HUD instructed them not to use public funds to pay the expenses, and paid \$5,067 for costs that were not adequately supported.

Purchasing And  
Contracting Requirements  
Were Not Followed

The Authority did not follow the provisions of the Annual Contributions Contract regarding conflicts of interest, enforce the terms of its inspections contract, exercise adequate controls over purchases and contracts, and ensure that employees of contractors were paid according to the Davis-Bacon Act.

Controls Over Payroll  
Were Not Adequate

The Authority inappropriately paid four employees \$5,275 for time they did not work, issued employees' payroll checks before review of the employees' time sheets, and did not maintain accurate payroll records for the Executive Director's vacation time. The Executive Director also did not follow the Board of Commissioners' directive regarding a retroactive pay adjustment for one employee.

Insurance Procedures  
Need Improvement

The Authority inappropriately used \$2,229 of Comprehensive Improvement Assistance Program funds to repair a fire damaged unit. The Authority also did not ensure that its insurance policies contained the necessary endorsement provisions.

Tenant Accounts  
Receivables Were Not  
Adequately Handled

The Authority did not adequately pursue amounts owed by former tenants, wrote off former tenants' accounts before pursuing adequate collection efforts, and did not properly account for \$53,186 of current and former Section 8 tenant accounts receivable.

The Authority Lacked An  
Acceptable Cost  
Allocation Plan

The Authority's cost allocation plan did not address employees' salaries and was not updated to include the additional Supportive Housing units received in 1995. The Authority also did not properly allocate non-salary costs to its Section 8 Program.

Travel Requirements Were  
Not Followed

The Authority paid employees for ineligible travel expenses, did not ensure that travel vouchers were completed according to HUD's requirements, and did not always review travel vouchers to ensure expenses were reasonable and necessary.

Lease Requirements Were  
Not Followed

The Housing Authority did not follow its Public Housing Occupancy Policy and HUD's requirements regarding tenant leases. The Authority did not ensure that its Public Housing lease forms were amended to include the provisions of the Housing Opportunity Program Extension Act of 1996, and did not execute a lease with its Maintenance Supervisor who occupied a Public Housing unit.

Personnel Practices Were  
Not Followed

The Housing Authority did not conduct job performance evaluations, maintain written job descriptions, and keep complete personnel files. The Authority also awarded salary increases and promotions to three employees without performance evaluations and one employee without an evaluation since 1989.

Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the Authority's Executive Director, the Chairman of the Board, and HUD's staff during the audit. We held an exit conference with the Authority's Board Chairman and Executive Director on April 10, 1998. The Authority provided written comments to our findings. We included a paraphrased version of the comments with each finding. The complete text of the comments are included in Appendix B with the exception of exhibits that were not necessary for understanding the Authority's comments. A complete copy of the Authority's responses with the exhibits was provided to HUD's Offices of Public Housing and Community Planning and Development.

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# Introduction

The Warren Metropolitan Housing Authority was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with HUD to provide low and moderate income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Authority. The Chairman of the Board is Dr. Jay Shadle. The Executive Director is Pamela Smith. The Authority's official records, Section 8, and Public Housing tenant files are located at 990 East Ridge Drive, Lebanon, Ohio. Tenant files for the Supportive Housing Program are maintained at 1063 Oregonia Road, Lebanon, Ohio.

The Housing Authority operates five programs: (1) a Low-Income Housing Program consisting of 137 units; (2) a Section 8 Voucher Program consisting of 59 vouchers; (3) a Section 8 Existing Certificate Program consisting of 303 units; (4) a Supportive Housing Program with a total of 53 units; and (5) a Comprehensive Improvement Assistance Program with total funding of \$1,058,484 for Fiscal Years 1995, 1996, and 1997. The Housing Authority is also involved in the development of 70 new public housing units of which 50 were under construction during our audit.

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## Audit Objectives

Our audit objectives were to: (1) determine if the Authority maintained its units in a decent, safe, and sanitary manner; (2) determine whether the Authority managed its Section 8 Program effectively and followed HUD contract and applicable regulations; (3) assess whether the Housing Authority had adequate internal controls for safeguarding cash and other monetary assets and inventory; (4) establish, if appropriate, the amount of any misappropriation, their causes, and the individuals involved; (5) evaluate the propriety of expenditures from Supportive Housing Program monies; and (6) assess the appropriateness of the Authority's contracting process.

## Audit Scope And Methodology

We performed our on-site work between July 1997 and January 1998 at the Housing Authority. To determine the reasons for the deterioration in the Authority's operations, we interviewed HUD's staff, the Housing Authority's staff, contractors, and tenants. Further, we analyzed the following items: tenant files and inspection reports, lawsuits and settlement agreements, cash disbursements and invoices, vendor files and contracts, Board meeting minutes, payroll records, insurance policies, tenant accounts receivable ledgers, the cost allocation plan, travel vouchers, and personnel files.

The audit covered the period January 1, 1996 through June 30, 1997. This period was adjusted as necessary. We

conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Housing Authority's Executive Director and the Chairman of the Board.



# The Authority Was Not Operated According To Program Requirements

The Executive Director and Board of Commissioners of the Warren Metropolitan Housing Authority did not adequately exercise their responsibility to effectively manage the Authority. The Executive Director did not conduct quality control reviews of Section 8 unit inspections, permitted the payment of legal expenses using public funds against HUD's instructions, and did not implement adequate controls over expenditures. The Director did not follow HUD's requirements, Office of Management and Budget Circular A-87, or the Authority's own policies. The Board of Commissioners did not adequately oversee the administration of the Authority. As a result, HUD lacks assurance that the Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

## HUD's Requirements

24 CFR Part 24 states in part that Executive Directors who violate HUD's requirements are subject to administrative sanctions such as debarment, suspension, and limited denial of participation.

## Commissioners' Responsibilities

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Executive Director and staff to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

## Executive Director's Responsibilities

An Executive Director's duties include:

- Establishing objectives needed to achieve the goals of the Authority;
- Overseeing the development and implementation of organizational policies and procedures for attaining the Authority's objectives;
- Carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations. In this capacity, the Executive Director is responsible for keeping the Commissioners informed of operational developments and to provide them with information for future policy and program guidance; and

- Maintaining overall compliance with Federal, State, and local laws, as well as the Authority's policies and procedures.

The Authority's  
Management Did Not  
Protect HUD's Interest

The Executive Director and the Board of Commissioners did not adequately exercise their responsibility to effectively manage the Authority. The Executive Director did not follow HUD's requirements, Office of Management and Budget Circular A-87, or the Authority's own policies. The Board of Commissioners did not adequately oversee the administration of the Authority. The Executive Director said the conditions we found occurred because she did not have time to address the issues, was not aware of HUD's requirements, or believed the requirements did not apply to her situation. In our opinion, the Director's explanations show a lack of management knowledge and responsibility. Her actions lowered the living conditions of tenants and hampered effective operations of the Housing Authority.

Quality Control Reviews  
Were Not Conducted

The Executive Director did not conduct quality control reviews of Section 8 units that were inspected in 1997. The Housing Authority's Section 8 Administrative Plan required the Executive Director or her designee to perform quality control reviews on five percent of the Section 8 units inspected. Quality control reviews help provide assurance that inspectors are adequately performing their duties and that units are decent, safe, and sanitary. Of the 59 units we inspected (see Finding 2), 48 were Section 8 units. We found the Authority's inspector missed a total of 125 violations in 37 of the Section 8 units. Because of this, tenants were needlessly subjected to conditions that were hazardous to their health and safety (see Finding 2).

The Executive Director  
Did Not Always Exercise  
Sound Judgment

The Executive Director permitted the payment of \$87,757 in legal expenses even though HUD instructed the Housing Authority not to use public funds to pay the expenses. The Director said she directed the payment from public funds because the Housing Authority did not have any other funds with which to make the payment (see Finding 3). She also did not exercise sound judgment over other financial transactions.

The Authority did not pursue adequate actions to collect past due accounts, did not consistently refer past due accounts to a collection agency, or report any of the delinquent Section 8 or Supportive Housing tenants to a credit bureau as required by

the Authority's Section 8 Administrative Plan. Between April and July 1997, the Authority wrote off \$15,078 in delinquent accounts (see Finding 7).

The Authority paid four employees for time they did not work. The Director allowed salaried employees to go home after they completed their duties even though they did not accumulate 80 work hours for that pay period. The Authority's policy requires all employees to work 80 hours a pay period (see Finding 5). The Director also approved the payment of ineligible travel expenses for entertainment and alcoholic beverages (see Finding 9). Although the amounts paid for ineligible travel expenses and time not worked were small (total of \$5,544), the Director's actions show a disregard for HUD's and the Authority's policies.

The Authority Did Not  
Have Adequate Controls  
For Operations

The same employee was allowed to purchase and receive items, and purchase orders were prepared and approved after items were purchased. Involving more than one person in the purchase process provides a check on the appropriateness of each others actions. Preparing purchase orders before a purchase helps ensure purchases are restricted to only reasonable and necessary items. Although we did not determine that any purchases were unnecessary, important internal controls were bypassed (see Finding 4).

The Authority did not follow acceptable personnel practices. Job performance evaluations were not conducted, written job descriptions were not established, and complete personnel files were not maintained. Salary increases and promotions were awarded to three employees without performance evaluations (see Finding 11).

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Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The current Executive Director was appointed on a permanent basis in late May 1996. She requested a HUD audit on November 20, 1996 to establish a record of the condition of the Housing Authority at or about the time that she assumed responsibility and in order to identify the areas needing correction or improvement.

Unfortunately, the request for assistance was left unanswered. Beginning in April 1997, the Office of Inspector General for Audit began a detailed investigation of the Authority, which culminated in the 11 proposed findings, many of which the Authority takes issue with.

The Authority is very surprised by the number of findings because in the past several years, it has undergone numerous independent audits as well as a previous Inspector General audit in 1990. Many of the areas found to be problematic at the present time were not found to be a problem at other times or by other independent sources. Such practices have been in place for a number of years. The circumstances suggest that the current findings are, at least in some cases, inaccurate, an over-interpretation of the regulations, or contrary to advice given to the Authority in the past.

The Housing Authority's Board (three new members since 1995) and the Executive Director, have initiated a number of major initiatives since mid-1996.

In short, the Executive Director and the Housing Authority's Board are committed to providing housing for the poor, elderly and needy in accordance with HUD regulations, all Office of Management and Budget Circulars and guidelines and the Authority's own policies. It will make every effort to correct every deficiency, whether or not it agrees with the particular finding.

The Authority's Executive Director did not assume full responsibility until mid-1996. Many of the findings, in fact, the vast majority, relate to issues, developments and circumstances that pre-existed this period of time. We propose that the recommendations be cleared by the Columbus HUD Office rather than the Cincinnati Office, because the vast majority of the issues pertain to matters that must be cleared by Columbus and are matters that the Authority has worked with Columbus previously.

The Authority is operated by a five member volunteer Board of Commissioners that consists of private individuals who donate their time at no cost to the government in order to ensure that the needy in the community have appropriate housing. We strongly disagree with the language in the

Inspector General's findings that states the Housing Authority's top management and its Board of Commissioners did not adequately exercise their responsibilities.

Quality Control Inspections - Contrary to the finding, the Executive Director did conduct quality control reviews of the Housing Quality Standards inspections in 1997. These were performed by an employee of the Housing Authority, a certified Housing Quality Standards inspector.

Legal Expenses - As to the claimed inappropriate and unsupported expenditures for legal and other expenses, the vast majority of this money was paid under the previous Executive Director, with the exception of fees incurred to advise the Authority during the termination proceedings of the previous Director. Only \$21,848 of legal expenses paid from Public Housing was paid under the current Executive Director.

Collection Efforts - Collection efforts are being enforced by the current Executive Director. This was not being done under the previous Executive Director.

Fair Labor Standards Act Issues - The Authority paid the salary-exempt employees per the practice of the Housing Authority as the Fair Labor Standards Act was understood and interpreted by the Authority's legal counsel.

Travel Expenses - The ineligible travel expenses were missed by three people. The number of travel receipts are in the hundreds and only these few minor errors were found.

The Authority will:

1. Perform quality reviews of Housing Quality Standards inspections on a yearly basis pursuant to the regulations;
2. Pay all salary-exempt employees consistent with the Authority's policy and Federal law;
3. Pursue collection efforts in a vigorous but cost effective manner;
4. Thoroughly inspect travel vouchers and receipts to insure that only proper charges are paid.

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OIG Evaluation of  
Auditee Comments

HUD performed monitoring reviews in 1992, 1993, 1994, and 1995. Based upon the reviews, HUD requested OIG to review the Authority's operations in 1996. HUD's request was made prior to the Authority's November 20, 1996 request for assistance.

The fact that the Housing Authority was subject to independent audits that did not find the same conditions does not mean that the current conditions are erroneous. The current conditions we reported are supported with documentation. The previous audit conducted by OIG in 1991 was an internal control review that would not have identified the same problem areas as the comprehensive review just completed. Also, there is no assurance or reason to expect conditions found during this current review also existed in 1991.

The current Executive Director was appointed as Acting Director in 1995. Although the Director had the responsibility to ensure all applicable requirements were followed, the findings show that she did not ensure that the Authority operated according to HUD's, the Office of Management and Budget's, the Department of Labor's, and the Authority's requirements.

The OIG recognizes that the Housing Authority's Commissioners are volunteers and do not receive compensation. However, the Authority's Commissioners have a responsibility to HUD and the tenants to ensure national housing policies are carried out, and to the Executive Director and staff to provide sound and manageable directives. Our review found the Commissioners did not adequately exercise their responsibilities and the Executive Director did not ensure the Authority was properly managed.

Although the Authority indicated that quality control reviews were conducted, it did not provide any documentation that showed what reviews were accomplished or when. As of December 8, 1997, the Authority had not conducted the required quality control reviews.

While the payment of legal fees and the execution of the settlement agreements occurred under the previous Director, \$21,848 was paid under the current Director. Additionally, HUD instructed the Housing Authority not to use public funds to pay the costs associated with the legal fees and settlement agreements. Both Directors did not follow HUD's guidance.

Although the Housing Authority indicated that collection efforts are being enforced by the current Executive Director, our audit did not support this statement. Eight of the 18 former Section 8 tenants and all three former Supportive Housing tenants that we tested vacated during the current Director's tenure. Of the eight former Section 8 tenants, the Authority did not timely notify seven tenants of the amounts owed. The delays ranged from 13 to 115 days. Further, the Authority did not: (1) notify any of the three former Supportive Housing tenants of the amounts owed; (2) refer any of the former Section 8 or Supportive Housing tenants to a credit bureau as required by the Section 8 Administrative Plan; and (3) pursue civil suits against seven of the eight former Section 8 tenants or the three former Supportive Housing tenants. The Authority did pursue civil action against one former Section 8 tenant.

While the Authority paid the salary exempt employees based upon past practice, the past practice was not in accordance with the Authority's Personnel Policy. The Policy required that all employees work 80 hours per pay period.

The Authority said three employees reviewed the travel vouchers. However, our review showed that eight of the 59 vouchers tested were not reviewed prior to reimbursement of the travel expenses, and 19 of the 59 vouchers contained ineligible travel costs.

The recommendations in this report are being directed to the organizational units having the jurisdiction and authority to act on them.

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## Recommendation

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development:

- 1A. Take administrative action against the Authority's Executive Director, if within six months the Authority does not show significant improvement in implementing controls over expenditures and following HUD's requirements and guidance.
- 1B. Take administrative action against the Board of Commissioners, if they do not improve their oversight of the Authority's operations.
- 1C. Provide training and technical assistance to the Executive Director and the Board of Commissioners regarding their duties and responsibilities.



## Units Had Health And Safety Violations

The Warren Metropolitan Housing Authority's units contained health and safety violations. Forty-one of the 59 (69 percent) units inspected by HUD and OIG had a total of 208 violations. HUD's Construction Analysts and OIG determined that 146 of the 208 violations existed at the time of the Housing Authority's last inspection. The violations were identified in the Housing Authority's Section 8, Supportive Housing, and Public Housing units. These deficiencies existed because: (1) the Housing Authority's Contract Inspector did not properly cite violations; and (2) the Executive Director did not conduct quality control reviews of the Section 8 units inspected. The Housing Authority's Contract Inspector said he mistakenly overlooked citing some violations during his inspections. As of December 8, 1998, the Executive Director had not performed any quality control reviews because she lacked sufficient time. As a result, tenants were subjected to conditions that were hazardous to their health and safety. The Housing Authority also received \$4,026 in Section 8 administrative fees to which it was not entitled.

### HUD's Requirements

24 CFR Part 882.108(a) requires that Section 8 dwelling units be decent, safe, and sanitary. 24 CFR Part 982.405(a) states the Housing Authority must inspect Section 8 leased units at least annually to determine whether the units meet the Housing Quality Standards.

24 CFR Part 982.401(a)(1) says that Section 8 housing must comply with the Housing Quality Standards, both at initial occupancy of the dwelling unit, and during the term of the assisted lease. 24 CFR Part 982.404(a)(1) says the owner must maintain the Section 8 unit according to the Housing Quality Standards.

24 CFR Part 982.152(d) states in part that HUD may reduce or offset any Section 8 administrative fee to the Housing Authority, if the Authority fails to perform its administrative responsibilities adequately, such as not enforcing the Housing Quality Standards.

HUD Handbook 7420.7, Public Housing Authority Administrative Practices Handbook, Chapter 5-12, states in part that housing authorities must establish procedures for reviewing a sample of the completed Section 8 unit inspections. A re-inspection by a supervisor of a random sample of five percent of the approved units is required.

24 CFR Part 583.300 states in part that Supportive Housing Program units must: (1) be structurally sound; (2) provide an

alternative means of exit in case of fire; (3) provide adequate space and security for each resident and their belongings; (4) be free of pollutants in the air at levels that threaten the health of residents; (5) provide sanitary facilities that are in proper operating condition; (6) have adequate heating and/or cooling facilities; (7) have adequate illumination and electricity; (8) be maintained in sanitary condition; and (9) include a smoke detector on each occupied level.

Section 201 of the Annual Contributions Contract requires the Housing Authority to provide Public Housing that is decent, safe, and sanitary. Further, Section 209 of the Contract states that the local authority shall at all times maintain each Public Housing Project in good repair, order, and condition.

#### Housing Authority's Requirements

Chapter 10 of the Housing Authority's Section 8 Administrative Plan dated October 2, 1995 states in part that unit inspections are required when a tenant moves into a unit and annually thereafter. The inspections apply to the building and premises, as well as the unit. Units must pass the Housing Quality Standards inspection. Further, Chapter 10, Section K of the Plan says that quality control inspections will be performed by the Executive Director or her designee on five percent of the Section 8 units inspected by each inspector.

#### Sample Selection And Inspections

We judgmentally selected units for inspection from a total universe of 552 occupied units. Of the 552 units, our sample selection was limited to units that had been inspected by the Housing Authority between June and October 1997. However, HUD's Construction Analysts inspected two additional units at the request of a tenant. The Housing Authority inspected these two units in April 1997. Additionally, OIG inspected seven units owned by one company based upon a tenant complaint. The seven units were inspected by the Housing Authority between March and September 1997. The two units inspected by HUD and the seven inspected by OIG are included in the inspection results.

A total of 59 units were inspected by HUD's Construction Analysts and OIG between September and November 1997. Of the 59 units, 52 units were inspected by HUD's Construction Analysts. The 52 units consisted of 41 Section 8 units, six Supportive Housing units, and five Public Housing units. OIG accompanied HUD's Construction Analysts during these inspections. No one from the Housing Authority was

available to accompany us during the inspection of the 52 units. The remaining seven units were inspected by OIG. All seven units were Section 8 units. The Executive Director and the Contract Inspector were present during the inspection of the seven units.

### Inspection Results Were Provided To The Authority And HUD

We provided copies of the inspection reports and pictures to the Housing Authority's Executive Director. We also provided copies of the inspection reports to HUD's Offices of Public Housing and Community Planning and Development.

### Units Contained Health And Safety Violations

Of the 59 units inspected, 41 (69 percent) had health and safety violations. The 41 units included 37 Section 8 units, two Supportive Housing units, and two Public Housing units. The 41 units contained a total of 208 violations. HUD's Construction Analysts and OIG determined that 146 of the 208 violations existed at the time of the Housing Authority's last inspection. The following is a list of the violations by category:

Type of Conditions	Total Violations
Structures and Materials	116
Space and Security	34
Illumination and Electricity	14
Sanitary Facilities	10
Lead-Based Paint	9
Food Preparation	8
Access	6
Site and Neighborhood	4
Thermal Environment	3
Interior Air Quality	3
Sanitary Conditions	1
<b>TOTAL</b>	<b>208</b>

### Structures And Materials

In the structure and materials category, 116 violations were identified in 35 units. Violations identified included air infiltration due to windows not fitting properly, water damage from leaking ceilings, rotted floors, buckling tile, torn carpet,

missing hand rails, missing gutters, and a chimney that did not extend beyond the roof line.

For example, the foundation at an outside corner of one unit was breaking up and the foundation pier for another unit was constructed of five cement blocks and scrap lumber which did not adequately support a beam in the crawl space. The pier was also leaning and not secure. Problems with foundations can cause serious shifting and probable weakness in structures. These violations can threaten the health and safety of the occupants. The following pictures show the problems with the foundation and the pier.



Exterior foundation crumbling on the Section 8 unit located at 2 North River Street, Franklin, Ohio



Beam leaning and improperly supported by cement blocks and scrap lumber for the Section 8 unit located at 66 Pidgeon Street, Corwin, Ohio.

HUD requires that Section 8, Supportive Housing, and Public Housing units be structurally sound and not pose any threat to the health and safety of the occupants. The units must also protect occupants from the environment.

### Space And Security

Fifteen units had 34 violations related to space and security. The violations included missing and non-functional locks on windows and doors, entrance doors with no weather-stripping, broken and inoperable door hinges, improper installation of air conditioners, and inoperable or missing smoke detectors.

All windows and doors that are accessible from the outside must be lockable to reduce the risk of burglary or other unlawful entry into the dwelling. The following picture shows that the window in a bedroom which was accessible from the outside was missing the locking mechanism. A mother and her six month old daughter lived in the unit.



Section 8 unit located at 244 Cincinnati Avenue, Lebanon, Ohio missing a locking mechanism for the bedroom window.

### Illumination And Electricity

Ten units had 14 illumination and electrical violations. The violations included missing outlet covers, reversed hot and neutral wires, outdated knob and tube wiring, wiring not encased in conduit, and inoperable light switches.

Sufficient electrical sources must be provided to permit the use of essential electrical appliances while assuring safety from fire. Fires and electrical shock can result from inadequate or improperly installed electrical facilities. For example, a family living in a Section 8 unit had two children under one year of age. The electrical outlet which was accessible to the children was missing an outlet cover. This condition was hazardous to

the health, safety, and welfare of the children in addition to other occupants of the unit. The following picture illustrates the violation.



Section 8 unit located at 912 North Broadway #B-2, Lebanon, Ohio was missing an electrical outlet cover.

#### Causes Of Deficiencies

The Housing Authority's Contract Inspector failed to properly cite violations. HUD's Construction Analysts and OIG determined that 146 of the 208 violations identified during our inspections existed at the time of the Housing Authority's last inspection. We based our opinion on information received from tenants in relation to the nature of the violations. Of the 41 units failed by HUD and OIG, 37 units were passed by the Housing Authority. The Housing Authority's Contract Inspector was responsible for passing 32 of the 37 units. The Housing Authority's Contract Inspector said he mistakenly overlooked citing some violations during his inspections.

As of December 8, 1997, the Housing Authority had not conducted any quality control reviews of the Section 8 units inspected in 1997. Quality control reviews provide assurance that only those units which meet HUD's Housing Quality Standards are approved for tenant occupancy. Reviews provide housing authorities with information concerning the general level of competence and consistency of the inspection staff. The Executive Director said she lacked sufficient time to perform the quality control reviews. She said she did not delegate the task to other employees because they did not have the practical experience necessary to perform quality control reviews.

Additionally, the Executive Director said that some of the items cited by HUD and OIG were not serious enough to designate

them as violations. For example, the Executive Director passed a unit that the Contract Inspector and the Warren County Department of Public Health both failed because of a safety violation. The unit had a one inch dip in the kitchen floor that was a tripping hazard by the stove. The unit should not have passed inspection with this violation.

The Housing Quality Standards guarantee a basic level of decent, safe, and sanitary housing. Inspectors are required to exercise good judgment when citing a violation and determining whether a unit meets the decent, safe, and sanitary housing requirement.

The Housing Authority earned \$4,026 in Section 8 administrative fees between its last inspection and November 1, 1997 for 34 of the 37 Section 8 units that had violations that the Authority did not detect. HUD has the authority to offset a Housing Authority's Section 8 administrative fee if the Authority fails to enforce the Housing Quality Standards.

As a result of the problems discussed above, tenants were subjected to conditions that were hazardous to their health and safety. Additionally the Housing Authority received Section 8 administrative fees to which it was not entitled.

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## Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Inspector General's initial and follow-up inspection teams were not Housing Quality Standards certified. To our knowledge, the final team's experience consisted of new construction inspectors. New construction requirements differ from the Standards in question.

As a result, we believe that these findings are incorrect because the Authority was held to a much higher standard than is permitted by law or regulation. Moreover, we are at a loss as to why the Inspector General seeks reimbursement for two units that were specifically passed by their inspection team.

The Inspector General's inspection team, in several instances, made the assumption that a condition existed at

the time of the Authority's Housing Quality Standards inspection when, in fact, the Authority believes it did not. The Authority believes that such arbitrary assignment of causation, without further investigation, is another reason the finding is badly flawed. The Authority's Housing Quality Standards Inspector, believes the findings regarding his work product are defamatory.

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#### OIG Evaluation of Auditee Comments

HUD does not require individuals that perform Housing Quality Standards inspections to be certified. HUD only requires that they be familiar with the requirements. The OIG Auditor and the two HUD Construction Analysts that performed the inspections were well aware of the Standards. HUD's Construction Analysts perform inspections of multifamily housing developments that are subject to the same Housing Quality Standards. The Housing Authority was not held to higher standards than the Housing Quality Standards.

We revised the finding to show the correct amount of Section 8 administrative funds that need to be reimbursed and eliminated the two units that passed the OIG inspection.

Based upon interviews with the Housing Authority's tenants and the condition of the violations, HUD's Construction Analysts and OIG determined that 146 of the 208 cited violations existed at the time of the Authority's last inspection. During the audit, the Housing Authority indicated to OIG that it contacted a tenant who's unit failed our inspection. The tenant said the failing condition was not preexisting. However, we again contacted the tenant and the tenant reconfirmed the statement that the problem was a preexisting condition. The tenant said the landlord corrected the condition after our inspection.

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#### Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 2A. Ensures that the owners of the 37 Section 8 and two Supportive Housing units in which we identified violations, corrects the cited violations.



- 2B. Reimburses HUD \$4,026 for the Section 8 administrative fees collected the by Housing Authority between its last inspection and November 1, 1997 for the 34 units that had existing violations that the Authority did not detect.
- 2C. Ensures the violations identified in the two Public Housing units are repaired.
- 2D. Ensures that its Contract Inspector properly cites all violations during his inspections. If the Contract Inspector fails to properly cite all violations, then the Housing Authority should take action to obtain a different inspector.
- 2E. Conducts regular quality control reviews of completed inspections for its Section 8 Program to ensure that inspectors are citing all violations.

## Warren Inappropriately Paid \$92,824 For Legal And Unsupported Expenses

The Warren Metropolitan Housing Authority inappropriately paid \$92,824 for ineligible and unsupported expenses. Specifically, the Housing Authority paid: (1) \$87,757 from its Public Housing and Supportive Housing Programs for legal expenses even though HUD instructed them not to use public funds to pay these expenses; and (2) \$5,067 for costs which were not adequately supported. These deficiencies existed because the Housing Authority's top management and its Board of Commissioners' did not adequately exercise their duties. As a result, the Housing Authority had less funds to operate its Public Housing and Supportive Housing Programs. HUD also had no assurance that the Housing Authority paid only reasonable and necessary operating costs.

### HUD's Requirements

Section 401 of the Annual Contributions Contract states in part that the Local Authority may withdraw monies from the Public Housing General Fund only for: (1) the payment of development costs and operating expenditures; (2) the purchase of investment securities as approved by the Government; and (3) other purposes specifically approved by the Government.

In regard to the Supportive Housing Program, 24 CFR Part 583.125(b) states in part that operating costs are those costs associated with the day-to-day operation of the Program. Operating costs also include the actual expenses that a recipient incurs for conducting on-going assessments of the supportive services needed by residents and the availability of such services.

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow the Office of Management and Budget Circular A-87, Cost Principles for State and Local Government. 24 CFR Part 85.3 defines a local government to include any public housing agency. The Circular is applicable to both the Low Income and Supportive Housing Programs.

### OMB's Requirements

Office and Management Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs must be adequately documented.

Commissioners'  
Responsibilities

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Executive Director and staff to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

Executive Directors'  
Responsibilities

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Executive Director. In particular, the Executive Director must supervise the cash management and bank reconciliation functions and maintain the Authority's overall compliance with Federal, State, and local laws.

Warren Inappropriately  
Paid \$87,757 For Legal  
Expenses

The Housing Authority inappropriately paid \$87,757 for legal expenses. The \$87,757 consisted of \$86,480 from the Public Housing Program and \$1,277 from the Supportive Housing Program. The legal expenses resulted from one criminal and two civil law suits, and a discrimination complaint filed between 1993 and 1996. The law suits included criminal charges of unlawful restraint against the former Executive Director and civil suits of sexual harassment and discrimination against the current Executive Director, the Board of Commissioners, and former Housing Authority staff. The former Executive Director was convicted on the criminal charges. The civil suits and the complaint resulted in settlement agreements by the Housing Authority. HUD approved the agreements and the reasonableness of the attorney fees from the law suits and the complaint. However, HUD instructed the Housing Authority not to expend funds from any of the Authority's programs for the settlement agreements and attorney fees because they were not eligible expenses.

We agree that HUD's funds should not have been expended from any of the Housing Authority's programs. Such payments were not for normal operations, and they were not necessary and reasonable for proper and efficient performance and administration of the Authority. In accordance with HUD's Litigation Handbook, HUD's Assistant General Counsels have the authority to approve the payment of legal fees. In order for an Assistant General Counsel to evaluate a housing authority's request, the authority would have had to submit a request to the appropriate Assistant General Counsel specifying the

source of funds that would be used and the specifics regarding the settlement.

The Executive Director said the Housing Authority did not follow HUD's instructions because the legal fees were project expenses and the Authority did not have any other funds to pay the fees. The Chairman of the Housing Authority's Board of Commissioners was aware that the Authority could not use HUD funds to pay the legal fees. However, he said the Housing Authority did not have any other funds to pay the fees. The Authority should have had the person the complaint was filed against pay the legal expenses or used its non-Federal funds. As a result, the Housing Authority had less funds to operate its Public Housing and Supportive Housing Programs.

The Authority Paid \$5,067  
Without Supporting  
Documentation

The Housing Authority paid 15 items totaling \$5,067 without supporting documentation, such as invoices or receiving reports. The \$5,067 consisted of \$1,284 paid from the Public Housing Program and \$3,783 paid from the Supportive Housing Program. We provided a list of the unsupported disbursements to the Executive Director. Examples of the unsupported disbursements were for office equipment and tenants' criminal background checks.

The Executive Director said she did not know why the payments were made without adequate support. She said there was support for the payments when she requested the items to be paid. However, the former Accountant said the Executive Director ordered the payment of these disbursements even though there was no support provided. The former Accountant also said the unsupported disbursements occurred primarily at the end of a grant period when the Housing Authority needed to spend the remaining Supportive Housing Program funds. Eleven of the 15 unsupported disbursements were from the Authority's Supportive Housing Program. Six of the 11 disbursements occurred in May 1996 and August 1996, at the end of the Supportive Housing Program grants.

The Housing Authority's Board of Commissioners approved the Authority's payments; however, the Board did not review the supporting documentation prior to the approval. Housing Authority Commissioners are responsible for monitoring the Authority's operations to ensure that housing programs are carried out in an efficient and economical manner. As a result,

HUD had no assurance that the Housing Authority paid only reasonable and necessary operating costs.

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**Auditee Comments**

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

It was incumbent upon the Authority to hire Counsel and defend lawsuits where the Authority or its Officers were named as defendants. Under Ohio's Sovereign Immunity Act, the Authority, as a public employer, is required to defend or indemnify employees who act for a public purpose in the scope of their duties. Accordingly, the Authority had no choice in the matter.

Based on a review of the year-end closing documentation for both fiscal years 1995 and 1996, the amount of legal fees charged to the Public Housing Program was \$39,607, not \$86,480. Payments for expenditures to Emens, Kegler, Brown, and Hill and Georgetta Sims made in fiscal year 1995 amounting to \$31,981 and \$14,893, respectively, were processed on Public Housing checks. However, the actual posting of these disbursements was classified as a deferred charge in fiscal year 1995. Then in fiscal year 1996, the costs were charged to the Section 8 Program.

As not to severely deplete the Section 8 operating reserve and while awaiting a HUD waiver for an incorrect administrative fee calculation, legal fees of \$40,884 were charged to both the Public and Supportive Housing Programs. The Authority then reimbursed the Public Housing Program \$46,874 from Section 8 funds in 1997. It is the Authority's position that all legal fees and settlement costs referenced in this finding should be found to be legitimate Program expenses and the Authority should be permitted to credit Section 8 reserves for amounts transferred to date.

With respect to the claim that \$5,067 was paid without proper documentation, the Authority submits that documentation existed at the time the checks were signed.

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**OIG Evaluation of  
Auditee Comments**

The Housing Authority said that it was required to defend or indemnify employees who act for a public purpose in the scope of their duties under the State of Ohio's Sovereign Immunity Act. However, the former Executive Director was convicted of a criminal act that was outside the scope of his duties. Additionally, the Sovereign Immunity Act applies only to State of Ohio employees. Under the State of Ohio's Metropolitan Housing Authority Act, the Authority's employees are not State employees. Further, HUD advised the Authority on several occasions not to use public funds to pay the legal fees and settlement costs.

The Housing Authority acknowledged it used \$39,607 from the Public Housing Program to pay the legal fees. The Authority should reimburse the Public Housing Program for the inappropriate payment of the legal fees.

The Housing Authority said legal fees and settlement costs totaling \$46,874 were ultimately paid from the Section 8 Program; however, the Authority did not provide any documentation to support this statement. We determined that the \$46,874 was paid with Public Housing funds. Additionally, OIG is unsure what the Authority means when it indicated that \$46,874 in "costs were charged to the Section 8 Program", or what bearing this has on the appropriateness of the expenditures. If the Authority used any HUD funds other than from its Section 8 administrative reserves, then the payments were not appropriate.

Regarding the payment of \$5,067 in unsupported expenses, the Authority should reimburse the appropriate Program for any costs that cannot be adequately supported. Further, the Authority should establish procedures and controls to ensure that all payments have supporting documentation prior to payment.

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**Recommendations**

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 3A. Reimburses the Public Housing Program \$86,480 and the Supportive Housing Program \$1,277 for the inappropriate legal fees from non-Federal funds.
- 3B. Establishes procedures and controls to follow HUD's requirements and instructions regarding the payment of expenses.
- 3C. Provides supporting documentation for the \$5,067 in unsupported disbursements. If adequate documentation cannot be provided, the Housing Authority should reimburse the Public Housing Program \$1,284 and the Supportive Housing Program \$3,783 from non-Federal funds.
- 3D. Establishes procedures and controls to ensure that all items have supporting documentation prior to payment. The procedures and controls should include a review of the supporting documentation by the Board of Commissioners prior to the approval of payment.

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## Purchasing And Contracting Requirements Were Not Followed

The Warren Metropolitan Housing Authority did not follow its Procurement Policy or HUD's requirements regarding purchases and contracts. The Housing Authority did not: (1) follow the provisions of the Annual Contributions Contract regarding conflicts of interest; (2) enforce the terms of its inspections contract; (3) exercise adequate controls over purchases and contracts; and (4) ensure that employees of contractors were paid according to the Davis-Bacon Act. These problems existed because the Housing Authority's top management and its Board of Commissioners' did not adequately perform their duties. As a result, HUD was not assured that: (1) resources were properly used; (2) purchases were obtained through free and open competition; and (3) the Housing Authority's Contract Inspector performed services according to the inspections contract. HUD and the Housing Authority also lack assurance that purchases and contracts were reasonable and necessary, and contractors' employees were appropriately paid.

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### HUD's Requirements

Section 515(A) of the Annual Contributions Contract states in part that the Local Authority shall not enter into any contract, subcontract, or arrangement, in connection with any Project or any property included or planned to be included in any Project, in which any employee or officer of the Local Authority, or any public official of such locality who exercises any responsibilities or functions with respect to the Project during his/her tenure or for one year thereafter has any interest, direct or indirect. If any employee, officer, or public official of such locality involuntarily acquires such an interest, and the interest is immediately disclosed to the Local Authority and disclosure is entered upon the minutes of the Local Authority, the Local Authority, with prior approval of the Government may waive the prohibition contained in the subsection: Provided, the employee or officer of the Local Authority or public official of such locality does not participate in any action by the Local Authority relating to the contract, subcontract, or arrangement.

Section 515(B) says in part that the Local Authority shall insert in all contracts, and require its contractors to insert in each of its subcontracts, the following provision: "No employee or officer of the Local Authority or public official of such locality who exercises any functions or responsibilities with respect to the Project, during his/her tenure or for one year thereafter, shall have any interest, direct or indirect, in this contract or the proceeds thereof."



HUD Handbook 7460.8 REV-1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, page 2-5, states in part that the primary function of the housing authority in administering contracts is to monitor the contractor's work. Failure to closely monitor progress and work performance can result in unnecessary additional costs and time delays for the housing authority. Page 3-5 says in part that when the same individual places a purchase order and also receives the item, there is an obvious lack of checks and balances and a potential for fraud. Although a small housing authority must, at times, assign multiple functions to a single individual, the Board or another responsible official should understand that this situation calls for continued monitoring.

#### Housing Authority's Requirements

The Housing Authority's Procurement Policy effective January 15, 1991 states in part that contracts shall be awarded for professional services as a result of public advertisement or competitive negotiations. Noncompetitive negotiations may be used when competition is determined to be inadequate. Professional service contracts should be procured using competitive proposals. The Executive Director may purchase or enter into a contract under \$2,500 in the open market. All purchases require prior approval and a purchase order. Procurement of equipment, materials, supplies, repairs, or services shall be documented and accompanied by invoices, packing slips, and purchase orders when necessary.

#### The Annual Contributions Contract Was Not Followed

The Housing Authority did not follow the provisions of the Annual Contributions Contract regarding conflicts of interest. Specifically, the Housing Authority failed to: (1) immediately disclose conflicts of interest to the public via board meeting minutes; (2) obtain a waiver from HUD for conflicts of interest; and (3) require its contractors to insert HUD's provision prohibiting conflicts of interest in each subcontract.

A conflict of interest existed between Reliable Carpet Cleaning, a vendor of the Housing Authority, and the President of the Warren County Board of Commissioners. The owner of Reliable Carpet Cleaning is the spouse of the County Board's President. The President has served on the County Board since January 3, 1993. The Warren County Board of Commissioners exercises a function to the Housing Authority by appointing a member to the Authority's Board of Commissioners.

The Housing Authority did not disclose the conflict of interest between the County Board President and Reliable Carpet until we brought it to the attention of the Executive Director. We provided the Housing Authority's Executive Director a copy of Section 515 of the Annual Contributions Contract in May 1997. Subsequently, the Housing Authority disclosed the conflict in its Board meeting minutes; however, the Housing Authority did not obtain a waiver from HUD for the conflict of interest that has existed since 1994. Between August 5, 1994 and July 25, 1997, the Housing Authority paid Reliable Carpet \$2,723 for carpet cleaning. The arrangement for services involved small purchases and did not require a contract.

The Housing Authority did not insert HUD's provision prohibiting conflicts of interest in each contract. We reviewed four contracts awarded by the Housing Authority between August 3, 1994 and October 24, 1996. Only two of the four contracts contained the required conflict of interest provision. The Housing Authority also failed to require that contractors insert HUD's provision prohibiting conflicts of interest in each subcontract.

The Executive Director said she was not aware of HUD's requirements regarding conflicts of interest. She also said she was not aware of the relationship between the County Board President and the owner of Reliable Carpet. The Housing Authority Commissioner, who was appointed by the County Board, and the Chairman of the Authority's Board said they were aware of the relationship between the County President and Reliable Carpet Cleaning. However, they said they were not aware of HUD's requirements regarding conflicts of interest. As a result, HUD was not assured that its resources were properly used and purchases were obtained through free and open competition.

Terms Of Inspection  
Contract Were Not  
Enforced

The Housing Authority did not enforce the terms of its inspections contract. The Housing Authority contracted in October 1996 for inspections of the Authority's Section 8, Supportive Housing, and Public Housing units. The inspections contract required that information obtained through the contract should in no way be used to benefit the Contractor. To benefit in any way is a material violation of the contract. However, the Contract Inspector made repairs to units that he inspected.

The Authority Did Not  
Exercise Adequate  
Controls Over Purchases  
And Contracts

For example, the Contract Inspector failed a Section 8 unit due to lack of heat from the boiler. The Contract Inspector repaired and then replaced the boiler and was paid approximately \$1,000 for his services. The Contract Inspector said he did not think making the repairs was a problem. The Executive Director said she was not aware that the Contract Inspector made repairs to units he inspected. It is a conflict of interest for an inspector to approve the quality of his own work.

The Housing Authority failed to exercise adequate controls over its purchases and contracts. The Housing Authority did not execute purchase orders and written contracts. We reviewed 27 of the Housing Authority's vendors' files for January 1996 to June 1997. Of the 27 files, the Housing Authority failed to execute a purchase order or contract for seven totaling \$43,743. The Executive Director said she believed that a purchase order or contract was not necessary since the items were included and approved in the Housing Authority's operating budget. HUD requires a purchase order or contract so that the terms of the purchase order or contract are documented and can be enforced.

For example, the Housing Authority obtained legal services from its former attorney. The attorney provided legal services relating to the Housing Authority's development project; however, the services were not competitively procured or outlined in a written contract. Without the benefit of competitive proposals and written contracts, HUD and the Housing Authority lack assurance that the legal fees were necessary and the costs charged reasonable.

The Housing Authority allowed the same employee to purchase and receive items for the Authority. We reviewed nine small purchases made by the Housing Authority between January 1996 and June 1997. The small purchases ranged between \$45 and \$1,162. Of the nine, two purchases were prepared and processed by the same Housing Authority employee. Although the purchases were small, the actions by the Housing Authority circumvented an important internal control designed to ensure purchases are reasonable and necessary.

The Housing Authority also prepared and approved purchase orders after purchases were completed. Of the nine small

purchases discussed above, the Housing Authority prepared and approved a purchase order after five items were already received. The Executive Director said purchase orders were just a formality and that HUD approved the purchases when the Housing Authority's budget was approved. However, HUD's approval of the budget does not replace the Authority's responsibility to ensure the reasonableness and the proper authorization of specific purchases.

#### Housing Act Of 1937 Requirements

The Housing Act of 1937, Section 12(a), says in part that any contract for loans, contributions, sale, or lease pursuant to the Act shall contain a provision requiring that not less than the wages prevailing in the locality shall be paid to all architects, technical engineers, draftsmen, and technicians employed in the development. The contracts shall also contain a provision that not less than the wages prevailing in the locality, as determined by the Secretary of Labor pursuant to the Davis-Bacon Act, shall be paid to all laborers and mechanics employed in the development of the project involved, and the Secretary shall require certification as to compliance with the provisions of the section.

#### The Authority Did Not Ensure Wages Were Paid According To Davis- Bacon

The Housing Authority did not ensure that employees of its contractors were paid according to the Davis-Bacon Act. The Housing Authority had four property insurance claims between February 1996 and June 1997. The repair services for one claim were awarded by the Housing Authority's insurance carrier; however, the Authority did not require the carrier to insert the Davis-Bacon Act provision in its contract (see Finding 6). For two claims, the Housing Authority did not execute a written contract with the contractor; therefore, the Davis-Bacon Act requirements were not spelled out. For the last claim, the Davis-Bacon Act provision was included in the written contract for repair services.

For the three claims that did not have a contract or the Davis-Bacon provision in the contract, the Housing Authority did not monitor the wages paid to the contractors' employees to ensure the provisions of the Act were complied with. The three claims related to work at: (1) 970-B East Ridge Drive, Lebanon, Ohio; (2) 844 South River Street, Franklin, Ohio; and (3) 421 Anderson Street, Franklin, Ohio. We attempted to verify what wages were paid to the employees; however, the Housing Authority, its insurance carrier, and the contractor all said they did not have records on the wages paid.

It is important for an authority to include Davis-Bacon Act provisions in its contracts and to monitor the contracts to ensure they do not violate fair wage standards. The Executive Director said she was not aware of the requirements for the Davis-Bacon Act. As a result, HUD and the Housing Authority lack assurance that contractors' employees were appropriately paid.

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### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Relationship Between County Board Official and Contractor - The Housing Authority's staff was not aware that a County Commissioner's spouse owned the business in question. After the alleged conflict was brought to the Housing Authority's attention, the Authority disclosed the relationship in the Board minutes and continued to utilize the company as suggested by the Inspector General's Senior Auditor.

Payment to Section 8 Coordinator/Assistant Director's Spouse - The conflict of interest concerning the gratuitous payment of the current Executive Director's spouse in 1991 occurred under the previous Executive Director. The services were not procured nor supported with an invoice as they were voluntarily performed. After the services were provided, the Board approved a \$950 payment in appreciation for the services. This \$950 was below the small purchase limit set forth in the Procurement Policy.

Terms of Inspector's Contract Not Enforced - The Inspector agreed, in hindsight, that he should not have made repairs and then passed the unit for Housing Quality Standards. He understands that this should not happen again and a further violation could lead to cancellation of his contract.

Lack of Documentation - The Housing Authority cannot comment specifically on the seven files cited that did not contain a purchase order as we do not know which files they are. In the future, the Authority will ensure that all purchases are supported by a written purchase order.

Legal Fees -The legal services from the former attorney were for development related services from a 1992 award for which she was the attorney of record.

Adequate Controls - The Housing Authority understands that assigning multiple functions to a single individual calls for close monitoring. All purchases are reviewed by both the Accountant and the Executive Director.

Davis-Bacon Act Requirements - A Davis-Bacon policy or checklist will be developed to ensure correct application of the Act in the future.

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### OIG Evaluation of Auditee Comments

HUD's approval of the conflicts of interest was not sought by the Housing Authority as required. As indicated in the finding, OIG provided the Authority a copy of Section 515 of the Annual Contributions Contract that outlines the requirements for conflicts of interest. The Authority should only continue to use Reliable Carpet Cleaning with HUD's approval.

We accept the Authority's explanation that the conflict of interest that occurred with the Executive Director's spouse in 1991 resulted from a payment in appreciation of services for voluntary work. Therefore, we removed the issue from the report.

The Authority indicated that it could not comment on the seven files that lacked a purchase order or a contract since it did not know which files they were. During the review, on October 31 and November 4, 1997, OIG discussed the specific files in question with the Authority. The actions proposed by the Authority to ensure that all purchases are supported by a written purchase order should correct the problem.

While the Authority indicated that the legal services provided by the Authority's former attorney related to development services, the Authority did not competitively procure her services nor was there a written contract outlining the services. The Authority should establish procedures and controls to competitively procure services and ensure that written contracts are executed.

The Authority indicated that all purchases are reviewed by the Accountant and the Executive Director; however, we found the review did not always take place prior to the purchase. Additionally, the Authority allowed the same employee to purchase and receive materials. When this occurs, the Board or another official should understand that the situation calls for continued monitoring. The Authority needs to establish procedures and controls over its purchases.

The actions proposed by the Authority regarding the Davis-Bacon Act should correct the problem when implemented.

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## Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 4A. Establishes and implements procedures and controls to publicly disclose conflicts of interest via Board meeting minutes and to obtain HUD's approval.
- 4B. Discontinues any future purchases with Reliable Carpet Cleaning unless HUD's approval is requested and obtained.
- 4C. Provides documentation (i.e. prior approval and a purchase order) to support the reasonableness of the \$950 payment to the current Executive Director's spouse. If adequate documentation cannot be provided, the Housing Authority should reimburse the Public Housing Program \$950 from non-Federal funds.
- 4D. Establishes and implements procedures and controls to ensure that the Housing Authority and its general contractors insert HUD's provision prohibiting conflicts of interest in each contract and subcontract.
- 4E. Terminates the contract with the Contract Inspector and institutes debarment proceedings if he does not follow the Housing Authority's instructions to stop performing repairs on the Authority's units.

- 4F. Implements controls to enforce the terms and conditions of current and future contracts.
- 4G. Establishes and implements procedures and controls to follow its Procurement Policy and HUD's requirements regarding purchases and contracts. The procedures and controls should ensure that: (1) written purchase orders and contracts are executed; (2) the same employee is not allowed to purchase and receive goods and services for the Authority; and (3) purchase orders are prepared and approved prior to the purchase.
- 4H. Establishes procedures and controls to ensure that contractors' employees are paid according to the Davis-Bacon Act. The procedures and controls should ensure that the Davis-Bacon Act provision is inserted in the Housing Authority's contracts and the Authority monitors the wages paid to contractors' employees to ensure they are appropriate.
- 4I. Obtains documentation from the contractors to ensure that employees were paid according to the Davis-Bacon Act. If the Housing Authority determines that the contractors' employees were not paid according to the Act, the Authority should take the necessary actions to ensure that the employees are paid any amounts due.



## Controls Over Payroll Were Not Adequate

The Warren Metropolitan Housing Authority lacked adequate controls over its payroll process. Specifically, the Housing Authority: (1) inappropriately paid four employees \$5,275 for time they did not work; (2) issued employees' payroll checks prior to the Executive Director's review of employees' time sheets; and (3) did not maintain accurate payroll records regarding the Executive Director's vacation time. The Executive Director also did not follow the Board of Commissioners' directive regarding the retroactive pay adjustment for one employee. These deficiencies existed because the Housing Authority's top management and its Board of Commissioners' did not adequately perform their duties. As a result, HUD and the Housing Authority lack assurance that funds were used properly.

### HUD's Requirements

Section 101 of the Annual Contributions Contract requires housing authorities to administer their projects to promote efficiency, economy, and stability. Section 307(C) of the Contract states in part that the Local Authority shall maintain complete records with respect to employees' leave.

HUD Handbook 7511.1, the Low-Rent Housing Accounting Guide, Chapter 3, Section 8, page 3, states in part that for the purposes of internal controls, payrolls are usually prepared by one employee, verified by another, and approved by an authorized official of the local authority.

### Housing Authority's Requirements

The Housing Authority's Personnel Policy dated April 24, 1989, page 12, states in part that each employee will: (1) work a seven hour day plus one hour for an unpaid lunch; and, (2) complete a time sheet at the end of the pay period for approval by the employee's supervisor.

The Housing Authority's Personnel Policy effective June 12, 1997 states in part that each employee will work an eight hour day plus one hour for an unpaid lunch. Salary-exempt employees are not permitted to earn compensatory time or overtime. The salary-exempt employees are the: (1) Executive Director; (2) Administrative Manager/Section 8 Supervisor; (3) Public Housing Property Manager; (4) Supportive Supervisor-Supportive Housing; and (5) Supportive Housing Program Coordinator. The June 12, 1997 Policy also requires each employee to complete a time sheet at the end of each pay period for approval by the employee's supervisor.

Employees Were  
Improperly Paid

The Housing Authority inappropriately paid four employees \$5,275 for 324 hours that they did not work. The \$5,275 consisted of \$3,889 from the Public Housing Program, \$891 from the Supportive Housing Program, and \$495 from the Section 8 Program. In 1994, the Housing Authority implemented a policy whereby the number of hours in a pay period increased from 70 to 80 hours. The policy was included in the June 12, 1997 Personnel Policy. However, the Housing Authority's salary exempt employees did not follow the policy.

We reviewed time sheets for the period October 19, 1995 to July 9, 1997 for the five salary-exempt employees. Four of the five employees did not work the required 80 hours per pay period. Still, the four employees were paid as if they had worked the 80 hours. The four employees were the Executive Director, Administrative Manager/Section 8 Supervisor, Public Housing Property Manager, and the Supportive Housing Program Coordinator. For example, the Executive Director worked 71 hours between January 23, 1997 and February 5, 1997, but was paid for 80 hours.

The Executive Director said salary-exempt employees were not required to take leave if they had completed their duties and took the rest of the day off. She said this had been the practice of the Housing Authority in the past. However, the policy was not in writing. A March 4, 1997 letter from the Housing Authority's attorney to the Authority's Chairman of the Board indicated that the Authority could charge its salary-exempt employees for partial days worked. Further, the United States Department of Labor allows public employers to deduct leave from employees' time banks for partial days worked pursuant to public accountability. The deductions from employees' available leave does not affect their salary-exempt status.

The Housing Authority did not exercise adequate controls regarding the processing of employees' payroll checks. The Executive Director instructed the Housing Authority's former Accountant to process employees' payroll checks prior to the Executive Director's review of the employees' time sheets. The former Accountant said it was a common practice for the payroll checks to be distributed before time sheets were reviewed and approved by the Executive Director. We reviewed six employees' time sheets, leave slips, and compensatory time slips for the period May 1, 1997 to June 25, 1997. None of the employees' time sheets or slips were

reviewed and approved by the Executive Director. The Executive Director said she was too busy addressing issues related to the Authority's Supportive Housing Program to conduct the reviews. She said it took approximately an hour to review the time sheets for each pay period. While we found no evidence that corrections were necessary after employees' payroll checks were issued, the Housing Authority must ensure that time records are reviewed prior to processing employees' checks to assure that funds are used properly.

#### Payroll Records Were Not Accurate

The Housing Authority failed to maintain accurate payroll records regarding the Executive Director's vacation time. We reviewed the Housing Authority's payroll records for the period October 19, 1995 to July 9, 1997. The Executive Director took 40 hours of vacation time in November and December 1995. However, the Housing Authority's payroll records did not reflect that the 40 hours were deducted from the Executive Director's available vacation time. The 40 hours represented \$748 in wages to the Executive Director. The Chairman of the Board said he has never reviewed the Executive Director's time sheets. The Executive Director said she was unaware of the bookkeeping error and agreed that her vacation time should be reduced by 40 hours.

#### The Director Did Not Follow The Board's Instructions

The Executive Director did not follow the Board of Commissioners' directive regarding a retroactive pay adjustment for one employee. In December 1996, the Board approved a retroactive pay raise for an employee to October 22, 1996. However, the Executive Director instructed the Housing Authority's former Accountant to make the pay raise retroactive to October 17, 1996, the beginning of the pay period. The Executive Director said she believed that the Board of Commissioners meant to make the retroactive pay raise to the end of the employee's six month probationary period which was October 17, 1996. She said the Board was provided with an incorrect date of October 22, 1996 because they did not have a calendar to calculate the correct date. However, our review of the Housing Authority's records for the employee indicated that the employee started with the Authority on April 22, 1997. Therefore, October 22, 1997 was the correct date for the pay raise to be effective.

The Chairman of the Board was not aware that the Board's directive had not been followed and that an over payment had been made. The over payment was minimal, but the employee

was paid an amount greater than approved by the Board. Executive Directors are required to implement the Commissioners' directives as they are established.

As a result of the issues discussed above, HUD and the Housing Authority lack assurance that funds were used properly.

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### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Payroll Adjustment - The pay raise for one employee that the Board authorized to begin on October 22, 1996, began October 17, 1996 as a result of the accounting department determining that a raise could not be processed in the middle of a pay period. Therefore, the Director advised the Accountant to make the adjustment to the beginning of the pay period. The staff should have advised the Board, but did not do so.

Vacation Credit - The referenced time sheet for the Executive Director and subsequent time sheets will be reviewed to ensure the balance is current.

Time Sheet Review - The Executive Director has scheduled her time so that she will review all payroll records before payroll checks are issued.

Fair Labor Standards Act Issues - It is understood and now policy that a salaried exempt employee must work 80 hours or deduct time from established time banks. However, it was never the intention nor did it happen that the Housing Authority or HUD was shorted on time being paid for time worked. The finding states that 29 CFR Part 541.5d(a) says employees of a public agency who are paid according to a pay system established by policy or practice and pursuant to public accountability can be charged leave for partial days worked. This has never been the practice of the Authority and the Board does not wish to make this the practice. The Housing Authority does not agree that the funds discussed in the finding were inappropriately paid.

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## OIG Evaluation of Auditee Comments

The Authority acknowledged that it did not follow the Board's directive regarding the payroll adjustment; however, it did not say it planned to develop procedures to prevent a future occurrence. Our review showed that October 22, 1996 was the correct date for the adjustment. Additionally, the Authority's former Accountant said it was not impossible to make a payroll adjustment in the middle of a pay period.

The actions proposed by the Authority regarding the Executive Director's vacation time should correct the problem; however, the Authority needs to adjust the Director's leave balance for the 40 hours that were not deducted.

The Authority indicated that it was now its policy that salary-exempt employees will work 80 hours per pay period. The Authority said neither it nor HUD was shorted on time being paid to its salary exempt employees. However, we determined that between October 19, 1995 and April 2, 1997 the Executive Director worked an average of 76 hours per pay period. Consequently, the Authority and HUD paid for time not worked. The Authority needs to establish procedures and controls to ensure that salary-exempt employees are paid based upon the number of hours worked.

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## Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 5A. Establishes procedures and controls to follow its Personnel Policy regarding: payments to salary-exempt employees based upon the number of hours worked; and strengthens controls to ensure employees' time records are reviewed before payroll checks are issued.
- 5B. Reimburses the Public Housing Program \$3,889, the Supportive Housing Program \$891, and the Section 8 Program \$495 from non-Federal funds for the inappropriate payments to the salary-exempt employees.

- 5C. Establishes procedures and controls to ensure payroll records are maintained accurately for employees' vacation time.
- 5D. Adjusts the Executive Director's vacation time for the 40 hours taken during November and December 1995.
- 5E. Establishes procedures and controls to assure the Board of Commissioners' directives are properly implemented.

## Insurance Procedures Must Be Improved

The Warren Metropolitan Housing Authority did not follow HUD's requirements or recommendations regarding its insurance procedures. Specifically, the Housing Authority: (1) inappropriately used \$2,229 of Comprehensive Improvement Assistance Program funds to repair a fire damaged unit; and (2) did not ensure that its insurance policies contained the necessary endorsement provisions. The Executive Director said she was not aware of HUD's requirements regarding the use of Comprehensive Improvement Assistance Program funds and HUD's insurance guidelines. As a result, the Housing Authority did not use its Comprehensive Improvement Assistance Program funds appropriately. HUD and the Housing Authority also lacked assurance that their financial interests were adequately protected.

### HUD's Requirements

Section 101 of the Annual Contributions Contract states in part that each Project will be developed and administered to promote serviceability, efficiency, economy, and stability.

HUD Guidebook 7485.3 G, Comprehensive Grant Program Guidebook, Chapter 2, is applicable to the Comprehensive Improvement Assistance Program. Chapter 2, Section 20, says in part that housing authorities shall not duplicate the costs for repair of a unit damaged by fire where costs are being reimbursed from insurance.

HUD Guidebook 7401.5, Public and Indian Housing Property/Casualty Insurance Requirements, page 2-3 says in part that housing authorities must ensure that property insurance policies do not contain a coinsurance clause. An agreed value clause must be used in lieu of the coinsurance clause. Page 2-5 states in part that housing authorities must ensure: (1) the removal of a vacancy clause from property insurance policies that voids or restricts coverage on entire buildings left vacant beyond a specific period of time; and (2) the inclusion of a property insurance endorsement that requires the insurance company to pay any additional labor costs under the Davis-Bacon Act when damages are in excess of \$2,000. Further, page 8-5 says that HUD must be included on housing authorities' fidelity bond insurance as an insured party.

HUD Guidebook 7401.5, page 2-5 recommends that housing authorities be provided with a minimum of 60 days notice prior to cancellation of their property insurance policy.

The Authority  
Inappropriately Used  
\$2,229

The Housing Authority inappropriately used \$2,229 of Comprehensive Improvement Assistance Program funds to repair a fire damaged unit. The fire occurred on December 12, 1996. The Housing Authority deposited the insurance claim proceeds into the Public Housing General Fund in February 1997. The General Fund is used to pay operating expenses of the Housing Authority. However, the Housing Authority used \$2,229 of Comprehensive Improvement Assistance Program funds to replace the cabinets instead of using the insurance proceeds. Housing authorities are prohibited from repairing fire damaged units with Comprehensive Improvement Assistance Program funds when costs are being reimbursed from insurance proceeds.

The Executive Director said she was not aware of HUD's requirements regarding the use of Comprehensive Improvement Assistance Program funds instead of insurance proceeds. She said the Housing Authority's Rehabilitation Coordinator told her that it was not a problem to have the kitchen cabinets replaced using the modernization funds. As a result, the Housing Authority did not use its Comprehensive Improvement Assistance Program funds appropriately.

Policies Did Not Contain  
The Necessary  
Endorsements

The Housing Authority did not ensure that its insurance policies contained the necessary endorsement provisions. We reviewed 13 of the Housing Authority's insurance policies with effective dates between June 1994 and July 1997. The policies related to the Housing Authority's property and equipment, fidelity bond, automobiles, boiler, and liability coverage.

The Housing Authority's property and equipment insurance policy contained a coinsurance and a vacancy clause. Coinsurance and vacancy clauses place an increased risk of loss on housing authorities. For example, the Housing Authority's property insurance policy stated that any building left vacant for more than 60 consecutive days was excluded from coverage due to vandalism, sprinkler leakage, glass breakage, water damage, theft, or attempted theft. The policy also stated that payments for any other losses not specified would be reduced by 15 percent. The Housing Authority had a unit that was vacant for approximately nine years with an insured value of \$125,000. If the unit is damaged while it is vacant, the Housing Authority would be responsible for all or part of the replacement cost. This was the only Housing Authority unit affected by the vacancy clause.



The Housing Authority's property and equipment insurance policy lacked a clause requiring the payment of wages in accordance with the Davis-Bacon Act. Housing authorities must ensure that their insurance carriers pay for labor costs under the Davis-Bacon Act when damages are in excess of \$2,000. For example, the Housing Authority had four property insurance claims in 1996 and 1997. The Housing Authority's insurance carrier contracted for the repair of one of the four properties. Since the Housing Authority's property and equipment insurance policies did not contain the Davis-Bacon Act provision, there was no legal responsibility for the insurance carrier to ensure that prevailing wages were paid. The Housing Authority was unable to provide us documentation to support that employees of the contractor were paid according to Davis-Bacon (see Finding 4).

The Housing Authority's fidelity bond insurance did not include HUD as an insured party. HUD must be listed as an insured party to protect its interest against any loss of money, securities, or other property which the Housing Authority may incur due to a fraudulent or dishonest act. The Executive Director said she was not aware of HUD's requirements regarding its insurance policies.

The Housing Authority's property and equipment insurance policy did not contain a 60 day notice of cancellation clause as recommended by HUD. The policy contained a 30 day notice of cancellation. Housing authorities must periodically procure insurance coverage on a competitive basis. The Housing Authority's current policy does not provide the Authority with the necessary time to secure replacement insurance coverage in the event the policy is terminated.

As a result of the problems discussed above, HUD and the Housing Authority lacked assurance that their financial interests were adequately protected.

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#### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Endorsement Provisions - The Housing Authority notified its insurance agency of the required clauses that need to be

added and/or taken out of the existing policies. The agent is in the process of resolving this issue.

Comprehensive Improvement Assistance Program - The Housing Authority will refund the \$2,229 paid for cabinet replacement to the Comprehensive Improvement Assistance Program from the Public Housing operating account.

Underinsured Vacant Property - The vacant property issue is now irrelevant because the property has been leased and insured.

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### OIG Evaluation of Auditee Comments

The Authority's action to have its insurance agent update the Authority's policies according to HUD's requirements and recommendations will correct the problems identified in this finding when the policies have been appropriately updated. The Authority needs to establish procedures and controls to ensure HUD's requirements and recommendations regarding insurance policy endorsements are followed in the future.

Although the Authority plans to repay the Comprehensive Assistance Improvement Program \$2,229, it also needs to develop procedures and controls to ensure HUD's requirements regarding the use of Comprehensive Improvement Assistance Program funds are followed.

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### Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 6A. Reimburses its Comprehensive Improvement Assistance Program \$2,229 from the Public Housing General Fund.
- 6B. Establishes procedures and controls to follow HUD's requirements regarding the use of Comprehensive Improvement Assistance Program funds in place of insurance proceeds.
- 6C. Obtains insurance policies that: (1) do not have a coinsurance clause; (2) have an agreed value clause; (3) do not have a 60 day vacancy provision; (4) have a clause that requires the insurance company to comply

with the Davis-Bacon Act for repairs in excess of \$2,000; (5) include HUD as an insured on the Authority's fidelity bond insurance policy; and (6) have a notice of cancellation clause that provides a 60 day notice prior to policy cancellation. If the insurance carrier cannot provide these endorsements, then the Housing Authority should obtain property insurance from a carrier who can provide the necessary endorsements.

- 6D. Establishes procedures and controls to follow HUD's requirements and recommendations regarding insurance policy endorsements.

# Tenant Accounts Receivable Efforts Were Inadequate

The Warren Metropolitan Housing Authority did not follow its policies or HUD's requirements regarding delinquent tenant accounts. The accounts related to the Housing Authority's Section 8, Supportive Housing, and Public Housing Programs. Specifically, the Housing Authority: (1) failed to adequately pursue amounts owed by former tenants; (2) wrote off former tenants' accounts before pursuing adequate collection efforts; and (3) did not properly account for \$53,186 of current and former Section 8 tenant accounts receivable. We attribute these deficiencies to the Housing Authority's top management's failure to aggressively pursue delinquent accounts and to recognize that failure to do so increased the risk of collection losses.

## HUD's Requirements

HUD Handbook 7511.1, Low-Rent Housing Accounting Guide, Chapter 11, Section 1, paragraph 12(a)(1) states in part that accounts of tenants which are considered uncollectible after all means of collection have failed may be written off as collection losses.

The Consolidated Annual Contributions Contract for the Housing Certificate and Housing Voucher Programs, paragraph 2.5(A) says in part that the Housing Authority shall maintain complete and accurate books of accounts and records.

## Housing Authority's Requirements

The Housing Authority's Section 8 Administrative Plan dated October 2, 1995, page 18-1, states in part that the Authority will make every effort to collect delinquent tenant accounts. The Housing Authority will use a variety of collection tools to recover debts such as requests for lump sum payments, pursuing civil suits, referring accounts to collection agencies, and reporting to credit bureaus. The Housing Authority used the Section 8 Administrative Plan's procedures for pursuing delinquent Supportive Housing tenant accounts.

The Housing Authority's Collection and Write-Off Policy dated March 28, 1989 regarding its Public Housing Program consisted of the following procedures for collecting vacated tenant accounts:

- The Housing Authority will notify the family of any outstanding balance due within 30 days of move-out or eviction. The Authority will give the family a maximum of 30 additional days to pay the entire balance, unless

arrangements for payment are made and approved by the Executive Director;

- Uncollected balances will be referred to the Housing Authority's designated collection agency, after the Authority has exhausted all available avenues to collect balances;
- In cases where it is possible for the Housing Authority to obtain a judgment through Small Claims Court against a former tenant for the unpaid balance, the Authority will expeditiously seek a judgment utilizing the Authority's legal counsel;
- Unpaid balances of small amounts that cannot be taken to Small Claims Court or not accepted by the collection agency will be handled by the Housing Authority's staff. The staff will send two letters, one per month, to the former tenant; and
- Any balances are to be written off six months after the final actions outlined above.

#### Executive Directors' Responsibilities

The responsibilities of a Housing Authority Executive Director include collecting rents and enforcing lease terms, and maintaining overall compliance with Federal, State, and local laws, as well as the Authority's policies and procedures.

#### Amounts Owed By Former Tenants Were Not Adequately Pursued

The Housing Authority did not adequately pursue amounts owed by former Section 8 and Supportive Housing tenants. The Housing Authority was owed \$42,099 from 60 former Section 8 tenants as of December 31, 1997 and \$5,659 from 21 former Supportive Housing tenants as of October 31, 1997.

We selected 18 former Section 8 and three former Supportive Housing tenants' files to determine what actions the Housing Authority took to collect the outstanding accounts. The Housing Authority failed to promptly notify 17 Section 8 tenants of their outstanding accounts. The notifications ranged between 43 and 1,226 days from when the tenant vacated the unit, with an average of 343 days. The Housing Authority sent second notices to 11 of the 17 tenants; however, the notices averaged 211 days after the first notice. The Housing Authority notified the remaining Section 8 tenant of her outstanding balance 11 days after she vacated. However, a

second notice was not sent to the tenant by the Housing Authority until five months after the first notice. The Housing Authority did not notify the three Supportive Housing tenants of their outstanding accounts.

The Housing Authority did not refer accounts to a collection agency or report any of the Section 8 or Supportive Housing tenants to a credit bureau as required by the Authority's Section 8 Administrative Plan. The Housing Authority pursued civil suits against only four of the 18 Section 8 tenants. None of the Supportive Housing tenants' accounts were pursued for civil suits. The Executive Director said a lot of work needs to be done to collect from former tenants, such as referring tenants to a collection agency and reporting tenants to a credit bureau. The Executive Director had not reviewed the Housing Authority's actions to collect the outstanding accounts. As a result of the Housing Authority not following its own policy, it increased the potential for loss of income.

Accounts Were Written Off Before Adequately Pursuing Collection

The Housing Authority wrote off former Supportive Housing and Public Housing tenants' accounts before pursuing adequate collection efforts. The Housing Authority wrote off 31 Supportive Housing tenants' accounts totaling \$11,075 on April 16, 1997 and nine Public Housing tenants' accounts totaling \$4,003 on June 30, 1997. We selected nine former Supportive Housing and five former Public Housing tenants' files to evaluate the Housing Authority's actions prior to write off. The Housing Authority did not notify four of the Supportive Housing and three of the Public Housing tenants of the amounts owed. The four Supportive Housing tenants owed \$2,472 and the three Public Housing tenants owed \$2,810. The Housing Authority also did not promptly notify the remaining five Supportive Housing tenants. The notices ranged between 47 and 388 days, an average of 206 days after the tenants vacated their Supportive Housing units. One Public Housing tenant was notified about his account 122 days after he vacated the Public Housing unit. The remaining Public Housing tenant was promptly notified regarding her outstanding account within eight days of vacating. The Housing Authority did not send second notices to any of the Supportive Housing and Public Housing tenants.

The Housing Authority also did not pursue any judgments through Small Claims Court or refer any of the 14 accounts we reviewed to a collection agency. The Housing Authority

Tenant Accounts Were  
Not Accounted For  
Properly

lacked a system to monitor and procedures to collect outstanding accounts prior to write off. As a result, potential collectible income was lost.

The Housing Authority failed to properly include Section 8 tenant accounts receivable on the Authority's books and records. Housing authorities must maintain accurate books and records to help prevent any diversion of funds. The Housing Authority did not include 34 current and 60 former Section 8 tenant accounts totaling \$53,186 on its books and records. This occurred because the Housing Authority did not perform periodic reconciliations of its books and records.

Since the Housing Authority's books and records did not include the current and former Section 8 tenants, payments of the amounts owed could have been diverted without detection. **Although there was no indication that funds were diverted**, the opportunity existed. One of the Housing Authority's Section 8 Program Assistants said the Housing Authority had not reconciled the Section 8 tenant accounts receivables to the general ledger since at least April 1995. The Housing Authority's former Accountant said she did not have a chance to establish procedures for periodic reconciliations of the Authority's books and records.

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Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Since November 1995, a concerted effort has begun to improve the collection process. Collection of approximately \$10,000 since January 1, 1997 is evidence that these efforts are beginning to pay dividends.

Though not specifically stated in HUD's guidelines, the Authority agrees that the establishment of a formal accounts receivable tracking system for the Section 8 Program will only enhance and strengthen the collection policies and procedures. The Authority will review its collection policies to establish procedures and controls to follow in the pursuit of bad debts.

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**OIG Evaluation of  
Auditee Comments**

Our review did not find a concerted collection effort since November 1995. Eight former Section 8 tenants and three former Supportive Housing tenants vacated their units after January 1, 1996. The Authority did not timely notify seven of the eight former Section 8 tenants of the amounts they owed. The delays ranged from 13 to 115 days after the tenants vacated. Further, the Authority did not notify: (1) any of the three former Supportive Housing tenants of the amounts they owed; (2) refer any of the former Section 8 or Supportive Housing tenants to a credit bureau as required by the Section 8 Administrative Plan; and (3) pursue civil suits against seven of the eight former Section 8 tenants or the three Supportive Housing tenants.

The Authority needs to establish procedures and controls to account for all tenants' receivables and to collect amounts owed by former tenants.

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**Recommendations**

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 7A. Establishes collection procedures and controls for the Section 8, Supportive Housing, and Public Housing Programs. The procedures and controls should include reviews by the Housing Authority's management to determine what actions have and should be taken to collect outstanding accounts prior to write off.
- 7B. Pursues collection of the former tenants cited in this finding that were written off but collection efforts were not attempted.
- 7C. Establishes and implements policies and procedures to properly record all tenant accounts. The policies and procedures should include periodic reconciliations of the Housing Authority's books and records.



## The Authority Lacked An Acceptable Cost Allocation Plan

The Warren Metropolitan Housing Authority did not have an acceptable cost allocation plan to support the allocation of indirect costs among its programs. Specifically, the Housing Authority's cost allocation plan did not address employees' salaries and was not updated to include the additional Supportive Housing units received in 1995. The Housing Authority also failed to properly allocate non-salary costs to its Section 8 Program. Employees' salaries were allocated to the Housing Authority's various programs based upon unsupported estimates made by the Executive Director. Housing authorities must allocate indirect costs to benefiting grant programs based upon specific methods, such as a time study. The Executive Director said she was not aware that the cost allocation plan had not been updated for the additional Supportive Housing units or that non-salary expenses for the main office were not allocated to the Section 8 Program. As a result, neither HUD nor the Housing Authority had assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived from the indirect costs.

### HUD's Requirements

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State and Local Government. 24 CFR Part 85.3 defines a local government to include any public housing agency.

### OMB's Requirements

Office of Management and Budget Circular A-87, Attachment A, states in part that State, local, and Federally-recognized Indian tribal governments shall establish principles to provide that Federal awards bear their fair share. Further, Attachment C of the Circular states in part that governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards.

### The Authority Lacked An Acceptable Plan

The Housing Authority did not have an acceptable cost allocation plan. The plan did not address employees' salaries. The Authority allocated employees' salaries and benefits based upon estimates made by the Executive Director. The Authority did not have documentation to support the estimates. Allocating costs to Federal programs based upon estimates is not an acceptable method. Housing authorities must document

an acceptable cost allocation plan and the plan should include employees' salaries.

We selected seven of the Housing Authority's employees who's salaries were charged to the Authority's various programs to determine the time they spent related to the programs. Five of the seven employees indicated they spent either more or less time than the percentage the Housing Authority charged to its various programs, and two indicated that the percentage of their salaries were properly allocated.

For example, in 1997, 90 percent of the Rehabilitation Coordinator's salary was allocated to the Comprehensive Improvement Assistance Program with the remaining 10 percent to the Public Housing Program. But she said she only spent about 65 to 70 percent of her time on the Comprehensive Improvement Assistance Program, 10 to 15 percent related to the Public Housing Program, five to seven percent on the Section 8 Program, and 10 percent on the Supportive Housing Program. Further, 100 percent of a Section 8 Assistant's salary was allocated to the Section 8 Program. The Assistant said she spent about 90 percent of her time on Section 8 activities and 10 percent on Supportive Housing activities.

The Housing Authority did not update its cost allocation plan to include the additional Supportive Housing units received in 1995. The Housing Authority was cited by HUD's Ohio State Office of Community Planning and Development in 1993 for failing to properly allocate indirect costs to the Supportive Housing Program. HUD closed the finding based upon the Authority's implementation of a cost allocation plan in 1994. The cost allocation plan was based upon the number of authorized units at the Housing Authority. However, the Housing Authority received an additional 40 Supportive Housing units in 1995. The Authority also has an additional 50 Public Housing units under development that should be on line within a year. The Executive Director said she was not aware that the plan was not updated. She said she relied on the Housing Authority's former Accountant to update the cost allocation plan.

The Housing Authority did not properly allocate non-salary costs to its Section 8 Program. The Housing Authority allocated all of the costs for property insurance, utilities, trash collection, and janitorial services at its main office to the Public

Housing Program. However, the Section 8 Program occupies part of the office space at the Housing Authority's main office. The Executive Director said she was not aware that the costs were not being allocated to the Section 8 Program. The Housing Authority relied on the former Accountant to ensure that costs were charged to the appropriate program. The Executive Director said the Housing Authority can have an acceptable plan by June 30, 1998.

As a result, the Housing Authority and HUD lacked assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived from the indirect costs.

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#### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Housing Authority admits that it did not update its cost allocation plan as necessary with the addition of the additional Supportive Housing units in 1995.

The Authority will begin work immediately on revising the cost allocation plan and include salary allocations for the positions that work in more than one program area. The plan will be completed and adopted by the Board by September 1998. We will then reallocate the costs to the various programs after the plan has been reviewed and approved by HUD.

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#### OIG Evaluation of Auditee Comments

The Authority's plan to immediately revise its cost allocation plan and reallocate costs should resolve the issues in this finding after the actions have been completed. However, the Authority needs to develop procedures and controls to ensure, in the future, its allocation plan is updated as necessary.

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#### Recommendations

We recommend that the Director of the Public Housing Hub in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure that the Warren Metropolitan Housing Authority:

- 8A. Develops a cost allocation plan in accordance with Office of Management and Budget Circular A-87 by September 30, 1998.
- 8B. Reallocates the indirect costs charged to the appropriate programs during 1997, once the cost allocation plan is developed.
- 8C. Establishes procedures and controls to update its cost allocation plan as necessary.

## The Authority Did Not Follow Travel Requirements

The Warren Metropolitan Housing Authority did not follow its Personnel Policy and HUD's requirements regarding travel. The Housing Authority: (1) paid employees for ineligible travel expenses; (2) did not ensure that travel vouchers were completed according to HUD's requirements; and (3) did not always review travel vouchers to ensure expenses were reasonable and necessary. These deficiencies existed because the Housing Authority's top management and its Board of Commissioners' did not adequately exercise their responsibilities. As a result, the Housing Authority paid unreasonable and unnecessary travel costs.

### HUD's Requirements

Section 307(C) of the Annual Contributions Contract requires the local authority to maintain complete records with respect to the authorization of official travel, and vouchers supporting reimbursement of travel expenses.

HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook, Chapter 4, paragraph 21, states in part that vouchers submitted for reimbursement of travel expenses should state the purpose of the trip, per diem rate, the date and hour of arrival, the mode of travel, and should set forth in detail the expenses for which reimbursement is being sought.

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow the Office of Management and Budget Circular A-87, Cost Principles for State and local government. A public housing agency is a local government according to 24 CFR Part 85.3.

### OMB's Requirements

Office and Management Budget Circular A-87, Attachment A, paragraph C(1)(a), says all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

### Housing Authority's Requirements

The Housing Authority's Personnel Policy dated April 24, 1989, page 24, states in part that costs of entertainment and alcoholic beverages shall not be reimbursed. Page 25 of the April 1989 Personnel Policy says in part that an allowance for meals shall be on the basis of actual costs, not to exceed a maximum of \$25 per day. Any exceptions must be approved by the Executive Director. The Authority's new Personnel

**The Authority Paid  
Ineligible Travel Costs**

Policy adopted on June 12, 1997 maintained the same requirements.

The Housing Authority paid employees for ineligible travel expenses. We reviewed 59 travel vouchers that were paid for travel between March 13, 1996 and October 28, 1997. Nineteen of the 59 vouchers contained ineligible travel costs. The ineligible items related mainly to meal claims that exceeded the Housing Authority's daily allowance of \$25.

The Authority's travel policy requires the Director to approve excess meal expenditures. The Executive Director said her signature on the travel vouchers was her approval to exceed the Authority's \$25 daily meal allowance. However, the approval of each travel voucher occurred after the excess meal allowances were incurred and the Executive Director did not record her justification for allowing the employees to exceed the daily meal allowance. Therefore, HUD and the Housing Authority lack assurance that travel vouchers were thoroughly reviewed or that adequate consideration was given in making the decision to exceed the daily meal allowance.

While the ineligible charges only amounted to \$269, they reflect less than prudent judgment on the part of management who approved the expenses and the employees who claimed them.

**Travel Vouchers Did Not  
Meet Requirements**

The Housing Authority did not ensure that travel vouchers met HUD's requirements. None of the 59 vouchers we reviewed contained the date and hour of arrival or the mode of transportation. The Executive Director said she was not aware of HUD's requirements regarding travel. HUD requires the date and hour of arrival and the mode of transportation to be put on travel vouchers so that reviewing authorities have information on which to judge whether costs are reasonable and necessary.

**Travel Vouchers Were  
Not Reviewed**

The Housing Authority did not always review travel vouchers to ensure expenses were reasonable and necessary. Eight of the 59 vouchers were not reviewed prior to reimbursement of the travel expenses. Of the eight vouchers, five were for the Executive Director and the other three for various Authority employees. The Executive Director approved the payment of her own vouchers; however, to ensure proper internal control, the Board of Commissioners should have performed the review

function. Three of the Director's and two of the other vouchers contained ineligible expenses. The ineligible expenses were for meals that exceeded the daily allowance and a parking fee charged by the Director for a date that was not within the time frame of the voucher. The parking fee was for August 18, 1997; however, the Executive Director's travel occurred between May 23, 1997 and June 19, 1997.

The Chairman of the Housing Authority's Board of Commissioners said the Director is responsible for the day-to-day operations of the Housing Authority. However, Housing Authority Commissioners are required to monitor the Authority's operations to ensure the operations are properly administered. Without adequate oversight by the Director and the Board of Commissioners, HUD lacks assurance that travel costs were reasonable and necessary.

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## Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Authority Employees and Executive Director Followed All Applicable Travel Policies - The Authority and its current Executive Director followed its Board of Commissioners' established and adopted Policies. The Policies were reviewed and approved by HUD. The Authority and its current Executive Director followed established practices regarding travel as they were carried out by the previous Executive Director.

The Authority disagrees with the language in the draft finding that states that the Authority's top management and its Board of Commissioners did not adequately exercise their responsibilities.

Three Beers - The Executive Director will concede that on one of the 59 travel vouchers three beers were purchased as a beverage with two meals. The Executive Director relied on the Authority's Accountant to check details on the travel vouchers. The Executive Director reviews and approves thousands of vouchers per year. It is not feasible or cost effective for the Executive Director to review every item on every receipt. The Authority agrees that the \$8.56

inadvertently spent on alcoholic beverages should be reimbursed to HUD.

One Pay-Per-View Movie -The cost of \$7.95 for a pay-per-view movie was refunded to the Authority when the travel voucher was submitted.

Vouchers In Excess of \$25.00 Per Day - The Authority did not change the daily meal allowance in its 1997 Policy revision because the Executive Director had authority to approve amounts exceeding the daily allowance and reimbursement for additional expenses.

Ineligible Phone Charges - The ineligible travel expenses of \$32.67 were for long distance phone calls made to the Housing Authority's offices by the Executive Director and the Administrative Manager while they were away at training.

Miscellaneous Meals - The Authority did not consider the "danish" provided as breakfast with training to be nutritionally balanced. Therefore, the Authority allowed \$10.87 to be charged for breakfast. A charge of \$18.11 was allowed in lieu of a dinner provided with training because the employee was in transit when dinner was served.

Misdated Receipt - The Executive Director's voucher with the parking receipt dated August 18, 1997 was in error, since the travel was completed in May or June 1997.

Travel Vouchers Were Not Completed According to HUD's Requirements - Handbook 7510.1, Chapter 4, paragraph 21 is an obsolete edition of that manual. Travel vouchers were prepared by a national accounting firm.

The Housing Authority Did Not Always Review Travel Vouchers - The Executive Director's travel vouchers were checked by accounting and/or the Administrative Manager for accuracy.

Some of the Inspector General's suggestions for expanding travel policy guidelines and increasing the daily travel advance to reflect 1998 costs are good. However, the Authority disagrees with the conclusion that the above practices violate written Policies or established practices



that mirror those of other area public agencies. Nevertheless, the Authority will concede the payment of \$269 in order to resolve this matter

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### OIG Evaluation of Auditee Comments

Our review found the Housing Authority did not adequately follow its Personnel Policies. Nineteen of the 59 travel vouchers we reviewed contained ineligible expenses. Most involved claiming the costs for meals that exceeded the Authority's limits and did not have the Director's written approval to exceed the required amount. We also found that the Authority inappropriately paid for four alcoholic beverages, pay-for-view movies during a hotel stay, and a parking fee that did not relate to the travel voucher submitted. We acknowledge the amounts involved were not large; however, the number of vouchers with errors demonstrates that procedures were not always followed and vouchers were not adequately reviewed before payment. We did not question the costs of the phone charges.

The Authority indicated that it paid employees for meals even though meals were received as part of the training attended because the meals were not nutritionally balanced or the traveler was in transit when the meal was provided. The vouchers related to these two items did not contain an explanation or the reasons for deviation from normal procedures. If the Authority had followed HUD Handbook 7510.1, which is not an obsolete edition of the manual, regarding the time of departures and arrivals for employees on travel, the issue regarding the employee being on travel at the time the meal was provided would have been documented and supported. The Authority needs to establish procedures and controls to follow its and HUD's requirements regarding travel. The Authority also needs to implement procedures and controls to review all travel vouchers.

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### Recommendations

We recommend that the Director of Public Housing in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure the Warren Metropolitan Housing Authority:

- 9A. Establishes procedures and controls to follow its and HUD's requirements regarding the payment of travel expenses and information to be included on travel vouchers.
- 9B. Establishes procedures and controls to review all travel vouchers to ensure travel expenses were reasonable and necessary prior to payment. The procedures and controls should include the Executive Director's travel vouchers. The Executive Director's vouchers need to be reviewed by an independent person who is not responsible to the Director.

## Lease Requirements Were Not Followed

The Warren Metropolitan Housing Authority did not follow its Public Housing Occupancy Policy and HUD's requirements regarding tenant leases. Specifically, the Housing Authority did not: (1) ensure that its Public Housing lease forms were amended to include the provisions of the Housing Opportunity Program Extension Act of 1996; and (2) execute a lease with its Maintenance Supervisor who occupied a Public Housing unit. These deficiencies existed because the Housing Authority's top management and its Board of Commissioners' did not adequately perform their duties. As a result, the Housing Authority did not ensure that the tenants' health, safety, and right to peaceful enjoyment was fully protected. Lease agreements also help protect HUD's, the Housing Authority's, and tenants' interests.

### HUD's Requirements

PIH Notice 96-27 issued on May 15, 1996, page 1, states in part that housing authorities are to implement the provisions of the Housing Opportunity Program Extension Act of 1996 without awaiting HUD regulations. Page 5 of the Notice says in part that public housing lease forms must be amended promptly to provide that drug-related criminal activity on or off a housing authority's premises and alcohol abuse that a housing authority determines to interfere with the health, safety, or right to peaceful enjoyment of the premises by other residents are grounds for termination of tenancy.

Section 203(B) of the Annual Contributions Contract states in part that the Local Authority shall not permit any family to occupy a dwelling unit in any Public Housing Project except pursuant to a written lease for such dwelling executed by a responsible member of such family. The lease shall contain all relevant provisions necessary to meet the requirements of the Housing Act of 1937 and of this Contract.

24 CFR Part 966.4 states in part that a lease shall be entered into between the Housing Authority and each tenant of a dwelling unit which shall contain the following provisions: (1) the names of the parties to the lease and the identification of the dwelling unit leased; (2) the term of the lease and provisions for renewal; (3) the members of the household who will reside in the unit; and (4) any payments due under the lease including rent and utilities.

### Housing Authority's Requirements

The Housing Authority's Public Housing Occupancy Policy, Section IX, page 24, says in part that prior to admission, a lease shall be signed and dated by the head of household and

Leases Were Not  
Amended

spouse and by the Authority. The lease is to be current at all times and must be compatible with the Authority's policies as well as State and Federal regulations.

The Housing Authority did not ensure that its Public Housing lease forms were amended to include the provisions of the Housing Opportunity Program Extension Act of 1996. The Act was signed into law on March 28, 1996 and contained the One Strike and You're Out policy. The Act provides for the termination of tenancy and prohibited admittance for any individual involved in a drug-related criminal activity or alcohol abuse in Public Housing.

The Executive Director and the Administrative Manager were aware of HUD's requirement regarding the amending of Public Housing lease forms to include the One Strike policy. They said they never got a chance to include the necessary amendments into the leases. The Housing Authority's Chairman of the Board said the Board never checked to see if the Authority amended its Public Housing lease forms. As a result, the Housing Authority did not ensure that the tenants' health, safety, and right to peaceful enjoyment was fully protected.

No Lease Was Executed

The Housing Authority did not execute a lease with its Maintenance Supervisor who occupied a Public Housing unit. The Housing Authority's Board of Commissioners approved the employee's occupancy at a reduced monthly rent with special duties such as answering after hours maintenance calls and providing security. The Authority requested and received HUD's approval for the deprogramming of the unit. The Housing Authority indicated in a letter to HUD that the Maintenance Supervisor would be required to execute a Public Housing lease and pay rent of \$150 per month.

The Maintenance Supervisor moved into a Public Housing unit in September 1997. However, the Housing Authority did not execute a written lease agreement specifying the amount of rent or the special duties to be performed by the Maintenance Supervisor. The Housing Authority also did not require the Maintenance Supervisor to pay any rent until we requested to see the Supervisor's rent payment schedule. After our review, the Maintenance Supervisor paid the Housing Authority \$600 which represented the past due rent. The Executive Director said it was an oversight by the Housing Authority that a lease

was not executed with and rental payments were not collected from the Maintenance Supervisor. The Chairman of the Housing Authority's Board of Commissioners said the Board never checked to see if a lease was executed with the Maintenance Supervisor. Lease agreements help protect HUD's, the Housing Authority's, and the tenants' interests.

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### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Housing Opportunity Program Extension Act of 1996 - During the audit, the Housing Authority was in the process of revising the lease and its Admissions and Continued Occupancy Policy to include the specifics of the One Strike and You're Out Policy. Nevertheless, the Housing Opportunity Program Extension Act provisions were always followed by the Authority. The only difference is the addendum to the lease states that the offense must occur on or near the premises, while the actual One Strike and You're Out Policy states that the offense can occur anywhere. We have now revised the Admissions and Continued Occupancy Policy and the lease to include the One Strike and You're Out language.

Maintenance Supervisor - The Maintenance Supervisor has paid all rent due and the Authority will ensure that the lease and payments are in proper order in the future.

Proposed Authority Action - Leases have been revised to conform to the Housing Opportunity Program Extension Act, and the Maintenance Supervisor's lease will be reviewed and executed.

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### OIG Evaluation of Auditee Comments

The Housing Opportunity Program Extension Act gives the Authority the ability to evict persons from Public Housing and prohibit admittance on the first offense for drug-related criminal acts or alcohol abuse. The Authority's lease in use during our review did not allow for eviction for these offenses without due process.

The actions the Authority plans or has taken should correct the problems identified in this finding when the actions have been

fully implemented; however, the Authority still needs to develop procedures and controls that ensure HUD's leasing requirements are followed.

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## Recommendations

We recommend that the Director of Public Housing in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure the Warren Metropolitan Housing Authority:

- 10A. Amends its Public Housing lease forms to comply with the Housing Opportunity Program Extension Act of 1996.
- 10B. Establishes procedures and controls to follow its and HUD's leasing requirements.
- 10C. Executes a Public Housing lease with the Maintenance Supervisor showing the amount of the monthly rent and the special duties to be performed.
- 10D. Ensures the collection of the Maintenance Supervisor's monthly rent. If the Maintenance Supervisor fails to make the necessary payments, then the Housing Authority should evict the Supervisor.

## Personnel Practices Were Not Followed

The Warren Metropolitan Housing Authority did not: (1) conduct job performance evaluations; (2) maintain written job descriptions; and (3) keep complete personnel files. The Housing Authority also awarded salary increases and promotions to three employees without performance evaluations and one employee without an evaluation since 1989. These issues existed because the Housing Authority's top management and its Board of Commissioners' did not adequately perform their duties. As a result, HUD and the Housing Authority have no assurance that promotions and pay increases were appropriate. Also, job descriptions help ensure that employees are aware of their duties and complete personnel files help assure that employees are treated equitably.

### HUD's Requirements

Section 309 of the Annual Contributions Contract states in part that the Local Authority shall maintain complete and accurate books of accounts and records.

### Housing Authority's Requirements

The Housing Authority's Personnel Policy dated April 24, 1989, page 5, states in part that employees will be evaluated regarding their performance during and at the end of their probationary period and annually in December. The supervisor will have the evaluation reviewed and signed by the Executive Director before meeting with the employee. Page 14 of the April 1989 Policy says in part that the primary factors that will be considered in the promotion of present employees are: (1) requirements of the position; (2) training and experience; (3) potential of the employee to perform the job; (4) employee's past and present performance as to work and personal conduct; and (5) seniority.

Further, page 4 of the April 1989 Personnel Policy states that an employee will be provided with a job description. The Executive Director or supervisor will review the job description with the employee explaining the nature and purpose of the duties required and the expected personal and work standards of performance.

The Housing Authority adopted a new Personnel Policy on June 12, 1997. Except for requiring evaluations at three month intervals during the six month probationary period, the Housing Authority's June 1997 Personnel Policy maintained the same requirements as the April 1989 Policy regarding performance evaluations, promotions, and job descriptions.

Performance Evaluations  
Were Not Conducted

The Housing Authority did not conduct job performance evaluations of its Supportive Housing, Public Housing, and Section 8 Program employees. Of the 22 personnel files we reviewed: (1) 11 files had no evaluation; (2) 10 files had evaluations that were outdated; and (3) one file did not require an evaluation because the employee was recently hired. The outdated evaluations ranged between August 1989 and April 1996.

Four of the 21 employees not evaluated or lacking a current evaluation received salary increases and promotions. For example, the Executive Director had not been evaluated since August 1989, but she received over \$10,000 in pay increases and two promotions since September 1995. The Authority's Board of Commissioners is responsible for evaluating the Executive Director.

According to the Executive Director, no employee evaluations had been done since November 1996, when the Housing Authority lost its Directors and Officers' insurance. Consequently, the Housing Authority did not conduct the necessary evaluations in December 1996 as required by its Policy. The Housing Authority did not want to risk the liability of providing employees their evaluations without insurance. The Housing Authority obtained Directors and Officers insurance on July 14, 1997. The Executive Director said the lack of evaluations prior to 1996 was a failure by the Authority's management to perform their duties. The Chairman of the Housing Authority's Board said the previous Executive Director failed to perform several of his responsibilities which included performance evaluations. The previous Director was removed by the Authority in October 1995. As a result, HUD and the Housing Authority lack assurance that promotions and pay increases were appropriate and that employees were properly informed of their job performance.

Job Descriptions Did Not  
Exist

The Housing Authority lacked written job descriptions for its Supportive Housing, Public Housing, and Section 8 Program employee positions. Written job descriptions did not exist for seven of the 19 positions we reviewed. The Authority began to write the job descriptions in June 1997, after we brought the problem to their attention. The Administrative Manager said the Authority had drafted six job descriptions as of October 23, 1997; however, the job descriptions still needed to be presented



to the Board of Commissioners for approval. Additionally, the Authority is updating the remaining 12 descriptions since they were last updated in 1991. The Authority expects to have all job descriptions approved by June 1998. Job descriptions help ensure that employees are aware of their duties and management's expectations and are needed as a basis for evaluating employee performance.

#### Personnel Files Were Not Complete

The Housing Authority's personnel files were not complete for its Supportive Housing, Public Housing, and Section 8 Program employees. Of the 22 personnel files we reviewed: (1) three lacked employment applications; (2) one did not contain a signed form acknowledging the employee's understanding of the Authority's Confidentiality Policy; and (3) two lacked verification of a valid driver's license at the time of employment which is a Housing Authority requirement. The Administrative Manager said that it was an oversight on her part that the personnel files were incomplete. Personnel files should be complete to provide assurance that employees are qualified and have been equitably treated.

#### Auditee Comments

Excerpts paraphrased from the Authority's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Housing Authority lost its Directors and Officers insurance in November 1996 and was hesitant to share certain evaluations with employees in December 1996 for fear of discrimination charges or lawsuits. The evaluations for 1996 were substantially completed but not shared with the staff. After a complaint was filed with the State, the Housing Authority was concerned of being accused of unfair labor practices if it distributed evaluations that had not been previously shared. The Authority revised its Personnel Policy in June, 1997 and will adhere to performing the employee evaluations at least annually.

All job descriptions are in the process of being revised and will be presented to the Board by September 1998 for adoption.

The Authority has reviewed all files and will attempt to obtain relevant missing information to make older active files complete.

All items referenced in this finding have either been corrected or will be completed by September 1998.

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OIG Evaluation of  
Auditee Comments

Employee evaluations should be an accurate assessment of job performance. If evaluations are restricted to comments on performance, there should not be any concern about potential discrimination lawsuits. The Authority needs to establish procedures and controls to follow its Personnel Policy and HUD's requirements regarding personnel practices.

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Recommendations

We recommend that the Director of Public Housing in Cleveland in coordination with the Ohio State Office's Director of Community Planning and Development assure the Warren Metropolitan Housing Authority:

- 11A. Establishes procedures and controls to follow its Personnel Policy including, but not limited to: (1) completing Supportive Housing, Public Housing, and Section 8 Program employees' performance evaluations on a timely basis; (2) awarding promotions and salary increases to its Supportive Housing, Public Housing, and Section 8 Program employees based upon performance evaluations; and (3) updating the job descriptions for all Supportive Housing, Public Housing, and Section 8 Program positions by September 1998.
- 11B. Establishes procedures and controls to follow HUD's requirements to maintain complete personnel files for all Supportive Housing, Public Housing, and Section 8 Program employees.

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# Management Controls

In planning and performing our audit, we considered the management controls of the Warren Metropolitan Housing Authority in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations.

The Executive Director did not operate the Housing Authority according to program requirements (see Finding 1). Specifically, the Executive Director: did not perform quality control reviews of Section 8 unit inspections; permitted the payment of \$87,757 in legal expenses even though HUD instructed the Authority not to use public funds to pay the expenses; allowed four employees to be paid \$5,275 for time they did not work; did not ensure that the Authority's collection efforts for tenant accounts receivable were adequate; and approved the payment of ineligible travel expenses (see Findings 2, 3, 5, 7, and 9).

The Housing Authority's Board of Commissioners did not monitor the operations of the Authority. Specifically, the Board: approved the Authority's payments without reviewing supporting documentation prior to approval; allowed the Authority to conduct business where conflicts of interest existed; permitted the Executive Director to approve the payment of her own travel vouchers that contained ineligible expenses; did not ensure that the Authority executed a lease with its Maintenance Supervisor; and did not review the Executive Director's performance while authorizing the Director pay increases and promotions (see Findings 3, 4, 9, 10, and 11).

The Executive Director instructed the Housing Authority's former Accountant to process employees' payroll checks prior to the Director's review of employees' time sheets. The Housing Authority also did not have a monitoring system that provided the Authority's procedures to collect outstanding tenant accounts prior to write off (see Findings 2, 5, and 7).

- Validity and Reliability of Data.

The Housing Authority did not properly account for current and former Section 8 tenant accounts receivable (see Finding 7).

The Housing Authority did not reconcile the Section 8 tenant accounts receivable to the general ledger since at least April 1995 (see Finding 7). The Authority also did

not always review travel vouchers to ensure expenses were reasonable and necessary (see Finding 9).

- Compliance with Laws and Regulations.

The Executive Director did not operate the Authority according to program requirements (see Finding 1). Further, the Housing Authority did not follow HUD's requirements, the Office of Management Budget Circular A-87, the Housing Act of 1937, or the Department of Labor's regulations regarding: (1) the condition of rental units, (2) cash disbursements, (3) Davis-Bacon wages, (4) payroll, (5) the cost allocation plan, (6) travel expenses, and (7) leases (see Findings 2,3,4,5,8,9, and 10).

- Safeguarding Resources. The Housing Authority inappropriately: paid \$92,874 for ineligible and unsupported expenses; compensated four employees \$5,275 for time they did not work; used \$2,229 of Comprehensive Improvement Assistance Program funds to repair a fire damaged unit; and paid employees for \$269 in ineligible travel expenses (see Findings 3, 5, 6, and 9).

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# Follow Up On Prior Audits

The Office of Inspector General issued an audit report on the Warren Metropolitan Housing Authority on May 28, 1991 pertaining to the operations of its Low-Rent Housing Program (Audit Case Number 91-CH-201-1009). The report contained two findings. The recommendations for the two findings were closed. One finding is repeated in this report.

## Report Number 91-CH-201-1009

## This Report

Reasonableness of Program Costs Was Not Adequately Documented (Finding 2).

The Authority Lacked An Acceptable Cost Allocation Plan (Finding 8).

The latest single audit for the Housing Authority covered the fiscal year ended December 31, 1996. The report contained eight findings. One of the eight findings is repeated in this report.

## Single Audit Report

## This Report

The Housing Authority Allocated Settlement and Legal Fees To The Public Housing Which Is Not Permitted (Finding 1).

Warren Inappropriately Paid \$92,874 For Legal and Unsupported Expenses (Finding 3).

# Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
2B	\$ 4,026	
3A	87,757	
3C		\$5,067
5B	5,275	
6A	<u>2,229</u>	
Total	<u>\$99,287</u>	<u>\$5,067</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

# Auditee Comments

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March 20, 1998

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Inspector General for Audit, Midwest  
77 West Jackson Boulevard, Room 2646  
Chicago, Illinois 60604

Mr. Heath Wolfe, Senior Auditor  
Department of Housing and Urban Development  
Office of Inspector General  
200 North High Street, Room 334  
Columbus, Ohio 43215

re: Proposed Audit Findings for the Warren Metropolitan Housing Authority

Gentlemen:

This office, through the undersigned, represents the Warren Metropolitan Housing Authority for purposes of responding to the proposed audit findings. Pursuant to the letter of Mr. Roger E. Niesen, dated March 4, 1998, an extension of time was granted to the Authority to respond by March 21, 1998 or the close of the following business day. We thank you again for that extension of time and your indulgence in allowing the Authority the opportunity to respond to all of the proposed findings in one document.

In this connection, please note that the Executive Director's letter of February 17, 1998 regarding one of the findings was intended to represent only an acknowledgment of receipt of the finding and not a formal response. All responses enclosed herein are the final, formal response of the Board of Trustees of the Warren Metropolitan Housing Authority and their administrative staff.

The attached documents contain the specific formal response of the Authority to each of the proposed findings. In addition, a number of exhibits are attached that support the Authority's response or the statements made in this cover letter.



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Mr. Roger E. Niesen, Assistant Director  
Mr. Heath Wolfe, Senior Auditor  
March 20, 1998  
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### **BACKGROUND**

In September 1995, the predecessor Executive Director was placed on leave and later terminated for performance reasons related to operation of the Authority. This action by the Authority Board of Trustees followed a tumultuous period including several lawsuits, EEOC and OCRC charges and considerable internal turmoil. The Board took this action to improve the situation and to ensure that the Authority was properly operated in accordance with law and HUD regulations.

### **AUTHORITY REQUEST FOR HUD ASSISTANCE**

The current Executive Director, Pamela Smith, was appointed on a permanent basis in late May, 1996. Since that time, and in order to seek the assistance of HUD, the current Executive Director requested an audit by HUD to establish a record of the condition of the Housing Authority at or about the time that Ms. Smith assumed responsibility and in order to identify the areas needing correction or improvement.

A copy of this letter, dated November 20, 1996, is attached as Exhibit 1. This letter states, in pertinent part:

"As you are aware, this Housing Authority has undergone enormous changes in staff and directorship. As the newly appointed Executive Director, I am requesting that your office schedule an audit of our Public Housing, Section 8 and Family Self-Sufficiency files. ..."

This request was made also at the suggestion of the Board of Trustees and Counsel in an effort to identify problems and to seek their correction as well as to seek the expertise and problem solving ability of our local HUD field offices, pursuant to HUD Handbook 7460.7, REV-2, which states, in pertinent part:

1-1 Objective. The objective of this Handbook is to establish requirements and methods to be used by Field Offices, to monitor Public Housing Agencies (PHA's). Field Offices should focus their efforts on those PHA's that are determined to be in the greatest need of attention. PHA's that have no performance or compliance problems will generally not be monitored on-site.

- a. Field Offices will be more proactive in helping PHA's identify and address performance and compliance problems. HUD advocates a cooperative problem-solving approach as the ideal model for PHA improvement process..."  
(See Exhibit 2)

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Unfortunately, the local Authority's request for assistance and HUD's problem solving ability was left unanswered. Instead, beginning in April/May, 1997, the office of Inspector General for Audit began a detailed investigation of the Authority, which culminated in the 11 proposed findings, many of which the Authority takes issue with.

It is apparent that in this instance at least, HUD has failed to follow its own handbook and provide assistance upon a request by a PHA Board of Directors. (See Exhibit 2 attached).

Also, the Authority is very surprised by a number of these findings because in the past several years, the Housing Authority has undergone numerous IPA, CPA, SHP, HUD and ODOD audits as well as a previous Inspector General audit in 1990 and many of the areas found to be problematic at the present time were not found to be a problem at other times or by other independent sources when such practices have been in place for a number of years. Therefore, we believe that these circumstances suggest that the instant findings are, at least in some cases, inaccurate, an over-interpretation of the regulations or, contrary to advice or instruction given to Authority personnel in the past.

**WMHA INITIATIVES AND STRONG DESIRE FOR IMPROVEMENT**

Notwithstanding the above, the Housing Authority Board (three new members since 1995) and the Executive Director, by way of example, have initiated a number of major initiatives since mid-1996, including the following:

- Development 009 has been started and almost completed;
- Development 010 has been bid and awarded and a reformulation budget approved by HUD for Development 011;
- The outdated personnel procurement, administrative, and occupancy policies have been revised;
- The Family Self-Sufficiency Program was brought to full enrollment and compliance; 10 families have been graduated to home ownership.
- A preventive maintenance schedule and painting schedule has been developed and followed;
- A five (h) Home Ownership Program has been approved;
- Complete independent fiscal audits have been obtained for years 1993 through 1996;
- Grants have been applied for and received annually to maintain the Authority's Family Self-Sufficiency, Comprehensive Improvement Assistance, and Transitional housing for homeless families programs;

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Mr. Roger E. Niesen, Assistant Director

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- Have performed the daily operations necessary to provide affordable housing to approximately 580 elderly, disabled, and low income families with children;
- The Housing Authority is making several other changes that are currently in process.

In short, the Executive Director and the Housing Authority Board are committed to providing housing for the poor, elderly and needy of this area in accordance with HUD regulations, all Office of Management and Budget Circulars and Guidelines and the Authority's own policies. It will make every effort to correct every deficiency, whether or not it agrees with the particular finding, as soon as possible. We thank the Inspector General and the U.S. Department of Housing and Urban Development in advance for their guidance and support.

Our disagreement with particular findings or conclusions of the Inspector General should not be read as any diminution of the Authority's commitment to the above principles or its respect for the mission or purpose of the Office of the Inspector General and the responsibilities of HUD and its field offices. We are fully aware of and completely appreciate the fact that the U.S. Department of Housing and Urban Development and local public housing authorities such as the Warren Metropolitan Housing Authority and, yes, the Office of Inspector General, are a team whose overall purpose is to provide safe, economical housing for the less fortunate in accordance with HUD regulations.

### **WMHA'S PROPOSALS AND REQUESTS**

In addition to the following specific responses, the Authority would request with respect to the finding regarding the Executive Director's failure to operate the Authority according to program requirements that the Inspector General take notice of the fact that the current Executive Director did not assume full responsibility until mid-1996 and that many of the findings, in fact, the vast majority, relate to issues, developments and circumstances that pre-existed this period of time. Furthermore, with respect to the Inspector General's recommendations, it is proposed by the Authority that the matters under question be cleared by the Columbus Office of Housing and Urban Development rather than Cincinnati because the vast majority of issues pertain to matters that must be cleared by Columbus HUD and are matters that the local Housing Authority has worked with Columbus HUD on previously. Furthermore, the Authority has experienced better success in obtaining the cooperation and assistance of Columbus HUD comparatively speaking over the past few years.

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Mr. Roger E. Niesen, Assistant Director  
Mr. Heath Wolfe, Senior Auditor  
March 20, 1998  
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Thus, for many reasons, including economy and efficiency, this matter should be assigned to the Columbus Office of the Department of Housing and Urban Development.

In addition, while the Authority appreciates the extension of time to March 21, 1998, the Authority reserves the right to supplement this response and to correct any further matters that come to its attention.

Finally, with respect to the audit finding related to legal fees, the Authority objects to the finding that the defense of the Authority and its officials were not approved or appropriate program expenses. These findings are contrary to the litigation manual and Public Housing Notice 90-47 as well as established federal court authority on the issue. This matter will be discussed in more detail in the response. Nevertheless, the Authority specifically requests that since all hiring of counsel was approved by HUD according to specific HUD guidelines and counsel was properly procured according to the regulations, that the Authority be permitted to charge such fees and settlement costs to the appropriate program budgets. This request is particularly important as it relates to the financial stability of the Authority and its ability to deliver on the mission of the Authority and HUD policy in general. The Inspector General is essentially asking that the Authority repay these funds from the Authority's Section 8 reserves, the only discretionary funds available to the Housing Authority. These reserve funds are necessary to make improvements to the programs and, if exhausted to pay legal fees that were necessary to defend the Authority, the Authority will be unable to make necessary program improvements. Therefore, unless this particular Inspector General finding is changed, the Authority's ability to perform its mission will be greatly diminished.

### **CONCLUSION**

The Inspector General and the U.S. Department of Housing and Urban Development should not lose sight of the fact that the Authority is operated by a five member volunteer Board of Trustees. This Board consists of a local physician and private individuals who come together to donate their time at no cost to the government or taxpayer in order to ensure that the needy in the community have appropriate housing. These individuals provide a tremendous service to the United States and their community and we all should be very grateful for their efforts which are, for the most part, difficult and tedious. It is in this vain that the undersigned on behalf of the Authority's Board and its current Executive Director states sincerely that we welcome any suggestions through findings or audits by the Inspector General and HUD for the improvement and refinement of the local Authority's policies and practices. However, we are strongly opposed

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Mr. Roger E. Niesen, Assistant Director  
Mr. Heath Wolfe, Senior Auditor  
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to and disagree with the proposed language in the Inspector General's findings which states that the Housing Authority's top management and its Board of Commissioners did not adequately exercise their responsibilities. We believe this language to be irreconcilable with the good faith efforts of these volunteer Board members and the hard work of the top Authority management, particularly in light of requests by the Authority for assistance from local HUD offices, which was not forthcoming, despite a written national policy where HUD urges its field offices to actively assist PHA's and stresses the need for cooperation, not confrontation - exactly the opposite of the treatment that this local Authority, run essentially by volunteers, has received.

Accordingly, we respectfully request that the proposed findings be rewritten or reconsidered as suggested above and in the following responses and exhibits.

Very truly yours,

FROST & JACOBS LLP

Donald L. Crain

DLC:stw

Enclosures

cc: HUD Columbus  
HUD Cincinnati  
U.S. Representative Ted Strickland  
U.S. Senator Michael DeWine  
Warren Metropolitan Housing Authority Board Members  
Ms. Pamela Smith, Executive Director

18684.01

WARREN METROPOLITAN HOUSING  
AUTHORITY RESPONSE TO  
PROPOSED FINDINGS

### LEASING REQUIREMENTS

These proposed findings relate to the Authority's failure to timely include the provisions of the Housing Opportunity Program Extension Act of 1996 into current leases. The Act provides for the termination of tenancy and prohibited admittance for any individual involved in drug related activity. The other finding related to the failure of the Authority to timely execute a lease with the Maintenance Supervisor.

#### HOME Act of 1996

During the audit process, the Housing Authority was in the process of revising the lease and Admissions and Continued Occupancy Policy so the specifics of the One Strike and You're Out Policy was to be added at that time. Nevertheless, the HOME Act provisions were always in fact followed by the Authority. As a regular practice, the Authority has always screened all Public Housing applicants' most recent five year criminal histories. The Authority has also, in fact, denied, and continues to deny, housing to individuals with a history of drug-related criminal activity, excessive/repeated alcohol offenses, or violence. As a part of their lease, applicants sign a statement regarding criminal drug activity. This statement has been included in the lease for at least the past four years. The only difference was that the addendum states that the offense must occur on or near the premises and the actual One Strike and You're Out Policy states that the offense can occur anywhere. We have now revised the Admissions and Continued Occupancy Policy and have revised the lease to include the One Strike and You're Out Policy language.

#### Maintenance Supervisor

The Housing Authority did not execute a lease with the Maintenance Supervisor as a special lease had to be developed since this individual is there to perform special duties in consideration for a reduced rent. The last time the Housing Authority entered into a lease with these stipulations, the lease was not specific and the Housing Authority could not obtain eviction easily when their employment with the County Sheriff ended. The Housing Authority wanted to ensure that the proper language was used in the lease so that the same problem did not arise in the future. The Maintenance Supervisor has paid all rent due and the Authority will ensure that the lease and payments are in proper order in the future.

#### Proposed Authority Action

- Leases have been revised to conform to HOME Act;
- Maintenance Supervisor lease to be reviewed and executed.

### COST ALLOCATION PLAN

The Housing Authority admits that it did not update its cost allocation plan as necessary with the addition of the additional supportive housing units in 1995.

By way of explanation, at that time, the Housing Authority had received approval for 70 additional public housing units (Development 009 and Development 010). The Board did not feel that it would be cost effective to pay to revise the cost allocation plan for 40 additional transitional housing units and then have to revise it again for the additional 70 public housing units. In 1994, under direction of the local HUD office, the Authority obtained a professionally prepared cost allocation plan at a cost of approximately \$5,000. Now that the 50 unit project and the now 9 unit project is underway, the Authority will begin work immediately on revising the cost allocation plan and include salary allocations for the positions that work in more than one program area. This plan shall be completed and adopted by the Board by September 1998. We will then reallocate the costs to the various programs after the plan has been reviewed and approved by HUD.



## PURCHASING AND CONTRACTING REQUIREMENTS WERE NOT FOLLOWED

### 1. Follow Provisions of ACC Regarding Conflict of Interest

#### A. Relationship Between County Board Official and Contractor

The Housing Authority staff was not aware that a County Commissioner's spouse owned the business in question. This company was awarded the bid of approximately \$1,200 after competitive procurement as they were the lowest and most advantageous price for the Housing Authority. The Housing Authority feels that this finding is an over-interpretation of the conflict of interest provisions of the ACC. After the alleged conflict was brought to the Housing Authority's attention, the Housing Authority, in fact, disclosed the relationship in the Board minutes and continued to utilize the company as the lowest bidder as suggested by the Inspector General's Senior Auditor.

#### B. Payment to Section 8 Coordinator/Assistant Director's Spouse

The conflict of interest cited concerning the gratuitous payment of the current Executive Director's spouse in 1991 was under the previous Executive Director. The services were not procured nor supported with an invoice as the services were rendered initially as a volunteer. The Board, well after the services were provided, under advice of the previous Executive Director, approved a \$950 payment in appreciation for these services to the Housing Authority. This \$950 was under the small purchase limit set forth in the procurement policy.

### II. Terms of Inspector's Contract Were Not Enforced

The contract inspector inspected a Section 8 unit. The unit had no heat. The landlord attempted to get the furnace repaired but could find no one to do it quickly as the family was without heat. The landlord called the contract inspector, who was a personal acquaintance, after not being able to have the repair made and the contract inspector agreed to make the emergency repair. Afterwards, the contract inspector replaced the furnace for a cost of less than \$1,000. The inspector agreed after further discussion with the Executive Director and a reprimand, that in hindsight, he should not have made repairs and then passed the unit for HQS. He understands that this should not happen again and a further violation could lead to cancellation of his contract.

#### 111. Lack of Documentation

The Housing Authority cannot comment specifically on the 7 files cited which did not contain a purchase order as we do not know which files this comment relates to. Nevertheless, in the future, the Authority will insure that all purchases are supported by a written purchase order which will be kept on file.

IV. Legal Fees

The legal services from the former attorney were for development related services from a 1992 award for which she was the attorney of record.

V. Adequate Controls

The Housing Authority is a small authority which, as indicated in the finding, "must, at times, assign multiple functions to a single individual." The Housing Authority understands that this calls for close monitoring, which is why all purchases are reviewed by both the accountant and the Executive Director.

VI. Davis-Bacon Act Requirements

The Authority was not aware of the requirement for Davis-Bacon Act application to damage reimbursed/repaid by the insurance company. The Housing Authority will make every effort to assure that the proper provisions are included in future contracts. A Davis-Bacon policy or checklist will be developed for these matters in order to insure that such matters are not overlooked in the future.

PERSONNEL PRACTICES NOT FOLLOWED

As to the finding that the Housing Authority did not perform evaluations on its employees until December 1997, the Housing Authority responds that the previous Director failed to do timely performance evaluations and it was one of the reasons he was dismissed. Also, the Housing Authority lost Directors and Officers insurance in November, 1996 and was hesitant to share certain evaluations with employees in December, 1996 for fear of discrimination charges or lawsuits. The evaluations for 1996 were substantially completed but not shared with staff. Also, after the petition for SERB representation was filed, the Housing Authority was concerned of being accused of unfair labor practices by distributing the evaluations that had not been previously shared. The Authority revised its personnel policy in June, 1997 and will adhere to performing the employee evaluations at least annually as the policy dictates.

As to the concern that adopted job descriptions did exist for all but 4 or 5 employees, the Authority states that all job descriptions are in the process of being revised and will be presented to the Board by September, 1998 for adoption.

As to the finding that the personnel files were kept by the previous Director and it was a failure on his part not to have complete information in them, the Housing Authority responds that it had not reviewed these files for completeness except for the employees hired since the current Director was appointed in May, 1996. Now that the Authority has reviewed all files, the Authority will attempt to obtain relevant missing information to make older active files complete. We can only locate three employee files that are missing applications. The driver's licenses for the two employees not having them are in the I-9 file which was kept separately in accounting, as required by law. This particular item will be incorporated into the personnel file.

Accordingly, all items referenced in this finding have either been corrected or will be completed by September, 1998.

## PAYROLL CONTROLS

### Inadvertent Payroll Adjustment

As explained during the audit, the pay raise for one employee which the Board resolution authorized to begin on October 22, 1996, in fact began October 17, 1996 as a result of the accounting department determining that a raise could not be processed in the middle of a pay period without throwing off all the records for that employee. Therefore, the Director advised the accountant to make the adjustment to the beginning of the pay period since it was a difference of only three work days. The staff should have advised the Board of this at the next meeting but failed to do so.

### Vacation Credit

The referenced time sheet for the Executive Director and subsequent time sheets will be reviewed to insure that the Executive Director's vacation balance is current.

### Time Sheet Review

The Executive Director has scheduled her time such that she will be in the office on Thursdays in order to review all payroll records before payroll checks are issued.

### FLSA Issues

The last issue the Housing Authority takes particular exception with. While it is understood and now policy that a salaried exempt employee must work 80 hours or deduct time from established time banks, it was never the intention nor did it happen that the Housing Authority or HUD was shorted on time being paid for time worked. We have completed spreadsheets showing that all of the salary exempt employees have worked more than ample time for the pay received. While the policy was outdated, the practice was that a salary exempt employee worked whatever amount of time was required to complete the job, but got paid for 80 hours regardless of the number of hours worked. As the spreadsheets show, the employee may not have worked 80 hours in every pay period, but if all the hours worked are added together, it is far more than 80 hours per pay period on average. The finding states that 29 CFR Part 541.5d(a) says that employees of a public agency who are paid according to a pay system established by policy or practice and pursuant to public accountability can be charged leave for partial days worked. This has never been the practice of the Housing Authority and the Board does not wish to make this the practice of the Housing Authority. The Housing Authority does not agree that the funds discussed in the finding were inappropriately paid.

THE EXECUTIVE DIRECTOR DID NOT OPERATE THE AUTHORITY  
ACCORDING TO PROGRAM REQUIREMENTS

Since the current Executive Director was appointed in May of 1996, many positive things have been accomplished as outlined in the cover letter.

Quality Control Inspections

Contrary to the finding, the Executive Director **did** conduct quality control reviews of the HQS inspections in 1997. These were performed by an employee of the Housing Authority, Bruce Fetty, a **certified** HQS inspector. For other related issues, please refer to the Inspection Finding Response.

Legal Expenses

As to the claimed inappropriate and unsupported expenditures for legal and other expenses, the vast majority of this money was paid under the **previous** Executive Director. The remaining amounts were incurred under the previous Executive Director with the exception of fees incurred to advise the Authority during the termination proceedings of the prior Executive Director.

Collection Efforts

Collection efforts are being enforced by the current Executive Director. Again under the **previous** Executive Director, this was not being done. The current Executive Director began implementing procedures to train one staff member who was then to cross train other departments. For further comment, please refer to the Disbursement Finding Response.

FLSA Issues

The Authority has paid the salary exempt employees as per the **practice** of the Housing Authority as FLSA was understood, and interpreted by the Authority's legal counsel. If all the hours worked by the employees in question were totaled from 1/1/95 to current, **all** the employees have worked extra time without receiving compensation. For further elaboration, please refer to the Personnel Finding Response.

Travel Expenses

The ineligible travel expenses were missed by three (3) people. Travel receipts are reviewed by the employees and their supervisor, the accountant and the Executive Director. The number of travel receipts are in the hundreds and only these few minor errors were found. For further explanation, please refer to the Travel Finding Response.

The Authority has undergone numerous IPA, CPA and SHP audits as well as a previous Inspector General audit, and the Authority was never advised that it was a problem for the same employee to purchase and receive items due to the limited number of employees employed and on-site. Since this has now, for the first time, been identified as a problem, steps have been taken to ensure that these circumstances are not repeated.

Accordingly, the Authority will:

- Perform quality reviews of HQS inspections on a yearly basis pursuant to the regulations;
- Pay all salaried, exempt employees consistent with Authority policy and federal law;
- Pursue collection efforts in a vigorous but cost effective manner;
- Thoroughly inspect travel vouchers and receipts to insure that only proper charges are paid.

## INSURANCE PROCEDURES

### Required Endorsement Provisions

The Housing Authority has notified our insurance agency of the required clauses that need to be added and/or taken out of the existing policy. Our agent is in the process of resolving this issue, which does not appear to present serious obstacles.

### CIAP Payments

The CIAP Coordinator stated that the Housing Authority could use the Comprehensive Improvement Assistance Program funds to pay for the cabinets in the fire damaged unit in question, since the cabinets were already in an approved budget and scope of work. This work, to replace all existing kitchen cabinets with a better grade of cabinet, was already underway at the complex when the fire occurred and the insurance company would only pay to replace what was damaged, not to upgrade nor replace the entire kitchen cabinets. In order for the entire project to have the same cabinets, the work was completed out of the already approved CIA-P budget and scope of work.

The Housing Authority's CIAP Coordinator was a professional consultant specializing in CIAP and procurement prior to her hire by the Authority as a full-time employee. The Executive Director relied on the expertise of the CIAP Coordinator, that this action was within HUD regulations. The proceeds of the insurance settlement were deposited in the Public Housing Operating Account and were used to benefit the Public Housing Program. The Housing Authority will refund the \$2,229.00 paid for cabinet replacement to the CIAP program from the PH Operating Account.

### Underinsured Vacant Property

With respect to the vacant property issue, it is now moot because the property has been leased and insured. Therefore, no further action is necessary.

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## HEALTH AND SAFETY VIOLATIONS

### HQS Inspections

Attached as Exhibits 3 and 4 are the specific responses of the Authority's HQS Inspector, Harrison Home Inspections to specific inspection findings. Harrison is a company certified in HUD Housing Quality Standards Inspections. Their certification is attached as part of Exhibit 4.

Harrison was procured through the competitive bidding process and was the low bidder for the previous two years. In general, we have found their work to be of high quality. Harrison also has a general reputation in the housing community as a reliable inspector with a high degree of knowledge regarding HUD requirements and local building and housing codes.

### Inspector General Team Not HQS Certified

We would note that the Inspector General's initial and follow-up inspection teams were not HQS certified. To our knowledge the final team's experience consisted of new construction inspection which differs markedly from the numerous HQS requirements, the standards in question.

As a result of these flaws, we believe that these findings are incorrect because the Authority has been held to a much higher standard than is permitted by law or regulation. Inspection for HQS is simply inappropriate under new construction guidelines. Therefore, we believe that this finding is in error as indicated in the attached Report of the Authority's certified HQS inspector. Moreover, we are at a loss as to why the Inspector General seeks reimbursement for the ##### and ##### units when these units were specifically passed by the Inspector General's inspection team. This finding, therefore, appears to be in error.

### "Pre-existing" Determinations Are Arbitrary and Capricious

The Inspector General's inspection team, in several instances, made the assumption that a condition existed at the time of the Authority's HQS inspection when, in fact, the Authority believes the condition was clearly, post-inspection tenant damage. The Authority believes that such arbitrary assignment of causation, without further investigation, is another reason this particular Inspector General finding is badly flawed. Exhibit 5 consists of additional evidence statements by tenants and landlords that damage was post-inspection rather than pre-existing as assumed by the Inspector General's inspection team.

Therefore, the Authority requests that this entire finding be reconsidered in light of Mr. Harrison's report and existing HQS standards.

Finally, at the request of William Mark Harrison, we have attached as Exhibit 3 his letter to us, verbatim, regarding this finding. Mr. Harrison believes that the Inspector General's findings regarding his work product and his trade or business is defamatory and has asked that his comments be included, verbatim, to set the record straight.



## THE AUTHORITY DID NOT FOLLOW TRAVEL REQUIREMENTS

### Authority Policy Was Approved by HUD and Reflects Local Practice

Section 307(A) of the annual contributions contract states in part that the Authority shall adopt and comply with a statement of personnel policies comparable with pertinent local public practice. Such statement shall cover payment of expenses of employees in travel status.

The Authority has an adopted personnel policy which is based on local public practice that was provided to HUD for their review, comment and approval. The Authority revised its policy in 1997 upon review and advice of its legal counsel to assure that the policy was up to date with current law and to strengthen management. This policy was revised at the behest of the Authority's current Executive Director.

The Authority's Board adopted policy (which was previously provided to HUD for review and comment) states in part that attendance at conferences, seminars, and training sessions are encouraged when funds are available (through approved budgets) and must be approved by the Executive Director. Commissioners, the Executive Director or employees of the Authority may perform special travel as authorized by the Board, the Chairperson, or the Executive Director. Travel shall be authorized by the Board, in their review and approval of the budget. Travel time to attend a meeting or convention shall be established by the Executive Director.

The Authority's Board approved and HUD reviewed personnel policy also states in part that employees will submit travel expense sheets with applicable receipts for reimbursement. Allowance for meals shall be on the basis of actual cost but not to exceed a maximum of \$25.00 daily. Exceptions will be made when conferences are held in locations that are considered high cost areas and other extenuating circumstances. Any exceptions must be approved by the Executive Director. Itemized expenses with receipts should be submitted for reimbursement or to account for any travel advances.

### Authority Employees and Executive Director Followed All Applicable Travel Policies

Thus, the Authority and its current Executive Director were following its Board of Commissioners' established and adopted policies which had been previously reviewed and approved by HUD (the 1997 revisions to the personnel policy made no changes in this area). Further, the Authority and its current Executive Director were following established practices in regards to travel as they had been carried out by the previous Executive Director. These policies and practices have been subject to previous reviews by HUD, the Ohio Department of Development, the Authority's accounting firm, two separate independent public accounting firms performing the Authority's annual financial audits in accordance with HUD testing requirements and regulations, and a previous office of investigator general audit held in 1990 or 1991. Additionally, the Authority employed a full time bookkeeper who held a degree in accounting, had previous accounting experience and was trained in housing authority accounting at the Authority's expense. The Authority has used the same travel practices and method of approval at least since

its personnel policy was originally adopted in 1989; yet not one of these entities or individuals has suggested any problems with the Authority following its travel policy and requirements.

The Authority's Board and its current Executive Director welcome any suggestions that the Inspector General or HUD have for improvement or refinement of our policies and practices; however, the Authority opposes and disagrees with the language in the draft finding which states that the Housing Authority's top management and its Board of Commissioners did not adequately exercise their responsibilities. Specifically, the draft finding states that the Housing Authority:

#### Paid Employees for Ineligible Travel Expenses

The draft finding states in part that of 59 travel vouchers reviewed for the period March 13, 1996 through October 28, 1997; 19 of the 59 vouchers contained ineligible travel costs. The ineligible items related to meal claims that exceeded the Housing Authority's daily allowance of \$25.00, and the purchase of alcoholic beverages and pay-for-view movies at hotels.

#### Three Beers

The Executive Director will concede that on one of the 59 travel vouchers three beers were purchased as a beverage with two meals. These beverages were shown along with the meal items purchased and listed on the receipt. The Executive Director relied on the Authority's in-house accountant to check details on the travel vouchers. The voucher was checked and initialed by the accountant. The Executive Director reviews and approves thousands of vouchers per year. It is not feasible or cost effective for the Executive Director to review every item on every receipt. The Authority agrees that the \$8.56 inadvertently spent on alcoholic beverages should be reimbursed to HUD.

#### One Pay-Per-View Movie

The \$7.95 for a pay-per-view movie was for Mrs. Gilbert's children who traveled with her at her expense which is permitted by the Authority's travel policy. In accordance with hotel policy, movies are charged to the hotel room. Ms. Gilbert immediately refunded the cost of the movie with her travel reconciliation. Therefore, this movie was not paid for with Authority funds.

#### Vouchers In Excess of \$25.00 Per Day

Most of the remaining 17 vouchers cited as having ineligible expenses relate to meal claims that exceeded the \$25.00 daily travel allowance.

The \$25.00 daily travel allowance was established upon adoption of the Housing Authority's April 1989 personnel policy. The cost of living from 1989 to date has increased over 25 percent. Therefore, \$25.00 in 1989 represented in present dollars is \$31.25 plus. As stated by the Inspector General in the draft finding, the Housing Authority revised its personnel policy in 1997 and did not change this allowance. The Authority did not change the allowance in the policy revision because the Executive Director had authority to approve amounts exceeding the daily

allowance and reimbursement for additional expenses. The Authority did not revise the policy because this practice had never been identified as a problem and had been through numerous reviews. The Authority contends that its Executive Director's approval of travel in excess of the \$25.00 daily allowance was and is in accordance with its approved policy. The travel vouchers which the Inspector General identified ranged from \$25.12 (12 cents over the 1989 allowance) to \$46.10 (\$21.10 over the 1989 daily travel advance). This allowance was for moderately priced hotel room service ordered at the seminar location by a lone female traveler. The seminar was held at a Marriott Hotel. The location was not in the control of the Housing Authority or the traveler and was the most economical for the Housing Authority because it did not require air travel. The training given is required by HUD.

#### Ineligible Phone Charges

Also among the vouchers stated to contain ineligible travel expenses was \$32.67 in long distance phone expenses for calls made to the WMHA offices by the Executive Director and the Administrative Manager while they were at out of town training. This expense is clearly business-related and justified.

#### Miscellaneous Meals

The WMHA policy does not deduct from the \$25.00 available advance for meals provided by the trainer. Meals do require receipts to be reimbursed. However, the Authority does require that expenses are reasonable and generally would not approve reimbursement barring unusual and extenuating circumstances. The Inspector General has disallowed two meals that were approved by the Executive Director. \$10.89 was disallowed for breakfast because danish was provided with morning coffee at the seminar site. The Authority does not require employees to disclose certain medical conditions (i.e. diabetes, hypoglycemia, etc.). Therefore, the Housing Authority would not consider "danish" as a meal provided and this cost was allowed by the Executive Director. The Authority considers paying for training to improve the effectiveness of its employees, and then requiring them to eat something other than a nutritionally balanced breakfast to be unwise and not in the Authority's best interest. \$18.11 was disallowed for dinner for an employee because dinner was provided at the training on that Sunday. The employee was approved for travel of 5+ hours on Sunday to arrive Sunday night. The employee's attendance at the training did not begin until the following morning. The employee was in transit far from the seminar when Sunday dinner was served. Therefore, the Executive Director approved dinner in transit as being reasonable and necessary.

#### Misdated Receipt

Regarding the Executive Director's vouchers turned in with the parking voucher dated 8/18/97, it was turned in for May or June travel well before August so obviously it was dated in error since August, 1997 had not yet occurred!

The Housing Authority Did Not Ensure That Travel Vouchers Were Completed  
According to HUD's Requirements

The Inspector General's cited Handbook 7510.1, Chapter 4, paragraph 21 is apparently an obsolete edition of that manual. The travel vouchers were prepared by a national accounting firm. We will take HUD's recommendation under advisement when revising our travel vouchers.

The Housing Authority Did Not Always Review Travel Vouchers To Ensure Expenses  
Were Reasonable and Necessary.

OMB Circular A-87, Attachment A, paragraph C(l)(a) says all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. HUD does not define reasonable and necessary; it is the Housing Authority's position that the costs in question are reasonable and necessary and within its policy. The Housing Authority has been through numerous audits and has not had an issue with travel vouchers not being in accordance with HUD policy.

As to Executive Director approving her own travel vouchers as being considered as disapproved and unreviewed, such vouchers were checked by accounting and/or the Administrative Manager for accuracy. Also, the Authority has been through several audits (as per previous list) and this method was not an issue.

Some of the Inspector General suggestions for expanding travel policy guidelines and increasing the daily travel advance to reflect 1998 costs are good. However, the Authority disagrees with the conclusion that the above practices violate written policies or established, but reasonable practices mirroring those for other area public agencies. Nevertheless, the Authority will concede the payment of \$269 in order to resolve this matter

## TENANT ACCOUNTS RECEIVABLE

### Accounts Receivable Collection Efforts Underway

The tenant accounts receivables were a major problem when the current Executive Director took over. Collection procedures were not being followed under the previous Director. The current Executive Director assigned one staff member who was to become proficient at local collection procedures and then train Public Housing and Supportive Housing staff. Until the current Executive Director, no known effort was being made towards collecting this money. Of the eighteen Section 8 files tested, only 3 of the 11 files with more than 100 days between termination and first attempt were actually terminated during the current Executive Director's tenure. The remaining files were terminated under the previous Director. The contacts to initiate collection efforts were made under the current Executive Director.

Three of the five Public Housing files selected were taken to court for eviction and/or damage hearings. The tenants were notified by the court as to the amount owed to the Housing Authority when the judgment was awarded.

Since November, 1995 a concerted effort has begun to improve the collection process, including placement of the Section 8 cases owing money in a tracking system and mailing collection letters. One staff member has been assigned to take these cases to court for a judgment and possible garnishment. Another staff member has been assigned five (5) cases a week to work on collection activities for the public housing program.

Collection of approximately \$10,000 since January 1, 1997 is evidence that these efforts are beginning to pay dividends. This was done with current resources and without incurring the cost of outside counsel or collection agencies.

Though not specifically stated in HUD guidelines, the Authority agrees that the establishment of a formal accounts receivable tracking system for the Section 8 program will only enhance and strengthen the collection policies and procedures. Additionally, the Authority will review its collection policies to establish procedures and controls to follow in the pursuit of bad debts.

In the future, these efforts will continue and additional efforts will include training staff in the collection process and the creation of a docketing system that will ensure that all reasonable efforts are taken to collect viable accounts receivable.

## INELIGIBLE AND UNSUPPORTED EXPENSES

### 1. Legal Fees

With regard to legal fees found to be "ineligible," the Inspector General seems to lose sight of the fact that defending the integrity of the Authority's housing programs, and the Authority itself is a primary responsibility of the Board. HUD Handbook 1530.1 REV-4, Chapter 5, Section 5-1c states, in pertinent part:

“C. Conduct of Litigation Every such recipient (see b. 'definition') has the responsibility to initiate or defend diligently all litigation involving such program, project, or activity to insure the proper use of federal funds.”

Therefore, it was incumbent upon the Authority to hire Counsel and defend lawsuits where the Authority or its Officers were named as defendants. In addition, under Ohio's Sovereign Immunity Act, the Authority, as a public employer, is required to defend or indemnify employees who act for a public purpose in the scope of their duties. Accordingly, the Authority had no choice in the matter. If the regulations require that the authority defend such litigation, by implication the Authority must pay expenses of competent Counsel, properly procured. In these respects the Authority discharged its responsibilities and is at a loss as to why these findings seem to contradict HUD's own regulations. See Exhibit 6 for copies of PIH Notice 90-47 and sample letters regarding proposed settlements and defense costs for contested matters.

HUD's Cincinnati Legal Division authorized the procurement of all Counsel. To find now that actual fees cannot be paid pursuant to such authority is difficult to reconcile. How can housing authorities protect themselves and HUD programs if no one will take responsibility for the payment of legal fees?

### II. Amounts In Question

Based on a review of the year-end closing documentation for both fiscal years 1995 and 1996, the amount of legal fees charged to the Public Housing (PH) program was \$39,607; not \$86,480, as contended by the Inspector General. Payments for expenditures to Emens, Kegler, Brown, and Hill and Georgetta Sims made in fiscal year (FY) 1995 amounting to \$31,981 and \$14,893, respectively, were processed on public housing checks; however, the actual posting of these disbursements was classified as a deferred charge in FY 1995. Then in FY 1996 the costs were charged to the Section 8 program. This is supported by adjusting entries depicting the flow of the transactions.

As not to severely deplete the Section 8 operating reserve and awaiting the approval of a HUD waiver for an incorrect administrative fee calculation, legal fees of \$40,884 were charged to both the Public and Supportive Housing programs.

Of the balance of the money paid from Public Housing, only \$21,848 was paid under this Executive Director's tenure. The Authority was never directed to contact HUD's Assistant General Counsel's office for assistance with legal fees. The Authority has correspondence from Cincinnati HUD's legal division stating that they are now acting on behalf of the Assistant General Counsel's office. See Exhibit 6. Many conversations took place regarding the need for the legal expenses and the obligation to pay this debt. The Authority paid these required expenses with funds that were available. Subsequently, the Authority reimbursed the Public Housing program approximately \$46,874 from Section 8 funds in 1997. Of the \$87,757 in total legal expenses paid by the Authority, the majority of this amount was paid at the direction of the previous Executive Director. It is the Authority's position that all legal fees and settlement costs referenced in this finding should be found to be legitimate program expenses and the Authority should be permitted to credit Section 8 reserves for amounts transferred to date.

#### Missing Documents

With respect to the claim that \$5,067 was paid without proper documentation, the Authority submits that documentation **did** exist for purchases at the time the checks were signed. Apparently, supporting documents were later inexplicably separated during filing. In the future, every effort will be made to ensure that supporting documentation will remain with copies or a carbon of each check issued. The Authority will make every effort to locate supporting documentation for these fifteen items. In the event that the supporting documentation cannot be retrieved, Section 8 operating reserves will be transferred to reimburse both programs.

## Harrison Home Inspection Services

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Thursday, January 08, 1998

Board Members  
Of Warren Metropolitan

Housing Authority

Dear board member,

In regards to the meeting January 7, 1997 with the Warren Metropolitan and The Inspector General, I would like to put down a few statements to be added to your audit. I feel the impact of this audit can greatly affect my business as I am a small business in a small town, I know it is hard for people in large areas to understand the repercussions of there actions in a small town if they have not lived in one. I understand this is an audit of Warren Metropolitan Housing Authority but it directly affects and reflect on my company. I would like this added to your statements to insure there are no slanderous statements made about my company directly or indirectly.

The flat issue is. I think it was horrendous that inspections were conducted by personnel who were not HQS certified. It takes training in this specialized area to understand the regulations. I am not taking anything away from the men who inspected but they hit on areas that this Authority has no variances. HQS Is very limited. It gives us a very basic guideline to inspect by and their are a lot of gray areas. HUD Inspection manual Section 2. The overview states: "Variations which are more restrictive than the acceptability Criteria must not unduly limit the amount and types of rental housing stock available at or below the Fair Market Rent that would otherwise meet the Housing Quality Standards of the program." It would be very easy to inspect units knowing in a week or so I would be gone. I would not have to look into the face of a child that had lost their housing due to my over interpretations of HQS, I would not have to worry about the available housing stock as it dwindled. I would not see the people in the local Hope House waiting for a home that would not be available because of the condition I had put WMHA Section Eight and Transitions Housing stock in. Keeping in mind this is not the statement of a man with only a HQS certification, I have worked in housing most of my life, Private sector, as well as the government, construction, maintenance, and management. I am a certified Housing Quality Inspector, Certified in Heating, Air-conditioning, Ventilation Basic Electrical, Certified Manager Of Maintenance, Climate Control Technology, Refrigeration, Lead Base Paint Abatement, and other certifications, and all of these mean nothing if not governed by common sense, fairness,

EXHIBIT

3



to determine that the conditions were preexisting? This should have been researched a lot better before some one was so bold as to deem a item preexisting.

The third Item I would like to address is the statement that was made that I had breached my contract on section seven the confidentiality clause. I will not bother to go into detail as to the incident as it is not pertinent due to the fact that the incident occurred January of 1997 under the first contract it was brought to my attention by the Director and the IG in May 1997. Although I didn't agree on the interpretation of the contract, I did agree not to put myself in a position again that could be misconstrued and have not since then. A new contract was drawn up in October 17, 1997 Their have been no incidents. I want to make sure this is correctly construed in the final report to HUD.

Sincerely,

William Mark Harrison

# *Harrison Home Inspection Service*

## **BUILDING INSPECTION REPORT**

3/16/98

Pam Smith Executive Director  
Warren Metropolitan Housing Authority  
990 East Ridge Dr. Lebanon, Ohio 45036

This letter is in response to the inspections performed by the Inspector General Office. I have reviewed a few of the inspections and I do not understand how the IG can inspect by standards higher than HQS. I was trained in HQS by Nan McKay and Associates, Inc. I received a Housing Quality Standards Inspection Certification, I have had training in several work shops regarding HQS, I was Certified as a Manager Of Maintenance, CIAP, and many other programs that either directly or indirectly refereed to HQS See Section On Certifications) . Unless I am mistaken HQS (Housing Quality Standards) is not BOCA, (Building Officials Code Administration) or CABO, (One and Two Family Dwellings) or UBC, (Uniform Building Code Book) or SBCCI. It is just what it say's "HOUSING QUALITY STANDARDS " a standard designed and regulated by the Department Of Housing And Urban Development. Lets look at the process of Building in Warren County. A unit in Warren County first has to have a occupancy permit at that time it is scrutinized by some of the best inspectors I have know (Certified Building Inspectors). Once passed they have decided if it passes CABO and or BOCA not the Housing Authority. And at that point even a certified Building Inspector can not go back into a unit that has an occupancy permit and fail a item. At this point if the unit is put on the program it is inspected for HQS not higher standards. And if this is what HUD expects why are HQS inspectors not required to be certified building inspectors. In all the years I worked for the Housing Authority I never met a HQS inspector that was a certified Building inspector. All the training I have ever had in relation to HUD was for HQS. I f you look at section 9 page 3I of the Housing Inspection Manual it states Influence Of The Housing Market " PHAs and inspectors may decide to exert less pressure on owners to make repairs beyond the HUD minimum standards. and this is exactly what the IG did they inspected beyond the HUD minimum standards. If I am not mistaken any areas that the Housing Authority wishes to go above the HUD minimum standards they must get a variance. The Warren Metropolitan Housing Authority has no variances that I am aware of. There is a reason that HUD calls the standards minimum it is because in many cases they are below CABO, BOCA, UBC, SBCCI, City codes, and County codes. It is evident that the main reason we do not inspect above the HUD HQS standards is that no one would stand for it we have enough trouble keeping units on the program at the present HUD standards if we increased the level to that of the IG there would be no need for inspections, there would be no units to inspect. But HUD knows that, this is the reason for the minimum standard.

So now that we are on the same page ( HUD HOUSING QUALITY STANDARDS) lets look at a few of the inspections.

Inspection **performed** on Unit 66 Pigeon St. Corwin Ohio

Item # 6.1

Inspector for the IG wrote "FAIL Item Piers need to be mortared & straightened in crawl" and that it was preexisting. I would like to comment on the later first Preexisting. each time I have inspected this unit over the years it has had some kind of major rehab being completed on it. Each time I have inspected it (I found a new sink was installed or a room newly painted, a new door, a new porch, etc.... And now I am to believe the conditions were preexisting? As for the piers in the following photo pages you will see only one of the piers were photographed, the remainder of the piers were not they are in good condition as you can see. The Housing Quality Standards manual states: 6.I CONDITION OF FOUNDATION Is the foundation free from hazard? Purpose: To assure that the foundation has the capacity to properly support the building and keep ground water out of the basement under normal rainfall conditions. DEFINITIONS AND CLARIFICATIONS " Unsound and hazardous" means foundations with sever structural defects indicating the potential for structural collapse, or foundations that allow significant entry of ground water evidenced by flooding in the basement. This was taken directly from the HQS manual. The building shows no signs of potential collapse, it is a small one story unit the pier in question could be removed and the building would still stand on the remainder.

Item # 6.3

Inspector for the IG wrote: " FAIL Item Tear off & Replace roof, Install gutters & DS yes this is preexisting. Preexisting because first of all the roof is not leaking so there is noting to fail it on. secondly the unit doesn't have any gutters or down spouts to fail. Gutters and down spouts are not required by HQS. see Housing Inspection Manual page 99 section 6.3 it states: "The absence of gutters is not cause to fail the item since gutters and down spouts are not required to pass this item."

Item # 6.4

Inspector for the IG wrote: " FAIL Item Complete existing siding" No wind or water is getting in to this unit no damage is present to the inside it has solid oak floors, oak walls very nice rehab job for a rental, I should say for any unit I do not see many houses these days with solid oak floors and walls let alone a rental unit. Regardless there is no damage to the unit. See page IOI section 6.4 CONDITION OF EXTERIOR WALLS " Are exterior surfaces sound and free from hazard?) Purpose To assure the tenant is not exposed to any danger of structural collapse and that the exterior walls are weathertight. " (It also states " If an exterior wall defect does not affect the tenant's unit it would not fail." That is word for word direct from the Housing Inspection manual I didn't write it I just in-force it. Possibly there is another Manual that supersedes this Manual there is CABO, BOCA as I stated before we do not have that option and its a good thing we don't in the wrong hands as that of the IG Inspectors we would have no rental units available to people in need. Yes we are to provide safe, Sound, Sanitary Housing, but you have to have units to select these from, left in the hands of these men there would be none.

Inspection performed on Unit 212 Cincinnati Ave. Lebanon, Ohio

Item # 6.4 Inspector for the IG wrote "FAIL Condition Of Exterior Surfaces Large Crack Exterior Of Building" This is the only thing he found and again I refer you to section 6.I of the Housing Inspection manual it state CONDITION OF EXTERIOR WALLS " Are exterior surfaces sound and free from hazard? Purpose To assure that the tenant is not exposed to any danger of structural collapse and that the exterior walls are weathertight. " (It also states " If an exterior wall defect does not affect the tenant's unit it would NOT fail." The wall has had a crack in it for seventeen years it has been caulked for seventeen years the tenant has no complaint, there is no water getting in no air getting in it is NOT a fail item.

Inspection performed on Unit 15 N. West St. #42 Lebanon, Ohio

Item # 2.7 Inspector for the IG wrote "FAIL 3.7 Wall Condition floor between tub and toilet rotted Fail 4.8 Torn carpeting. Fail 8.6 Broken Hand rail Existing " and that the conditions were preexisting. See section on inspection I have a signed statement from resident that the problem did not exist at time of my inspection, resident also stated the floor was not rotten the only problem was the toilet was loose at the time of the IG Inspection and she said explained this to him. Evidently they just wrote what they felt like writing disregarding the truth. I was told that the way they determined preexisting is by asking the resident, well here must be another one they forgot to ask.

Inspection performed on Unit 315 East Silver St. Apt # 2 Lebanon Ohio

Item # 3.5 Inspector for the IG wrote " Fail 1.5 Window Condition Broken Window Existing Fail 2.3 Electrical Hazards Cracked Switch plate 4.8 Floor Condition Fail Loose Carpet existing " Resident signed statement never had a cracked window never had a cracked switch plate, ( See section on Inspections for detailed resident statement.)

Inspection performed on Unit 912 N. Broadway B-2 Lebanon Ohio

Item # 2.3 Inspector for the IG wrote "Fail electrical hazards Broken Outlet Existing" Resident said it was not broken at time of my inspection. was NOT Preexisting. ( See section on inspections for residents statements. ) Also wrote "2.5 Fail door condition does not fit air penetration kitchen door existing" This was a two inch section of weather striping missing around door striker plate it came off after I inspected. ( See residents statement section.)

Inspection performed on Unit 902 Stanwood Dr. Lebanon Ohio

Item # 3.5 " Inspector for the IG wrote Fail Bathroom window Condition Will Not open When I inspected the unit it had a thumb locks on the windows a lot of our section eight units have older windows that are impossible to get parts for I suggest to install thumb locks they are as secure as the original and a lot less expensive. What should we do ask landlords to replace windows because a lock is missing I don't think so. At the time the IG inspected the resident said the window was open that solves half the problem if it was half open it must open and she said when she opened it she removed the lock and laid it next to the window (thumb locks come off when you open them) that solves the second part. I talk to people when I inspect units it is a useful tool a resident can tell you a lot about problems they are having as well as problem that are NOT, If he had bothered to ask her about the locks she would have told him and showed him the locks.

Inspection performed on Unit 6130 Snider Rd. Mason, Ohio

Item # 6.2 " Inspector for the IG wrote Fail Repair Front Patio" This is a very small crack it is not a trip hazard, it doesn't let air into unit or water it has no merit. It is not a fail

Inspection performed on Unit 468 Claude Ave. South Lebanon, Ohio

Item # "Inspector for the IG wrote "Fail 8.I Access to unit secure handrail at front entry Existing" Rail was not broken at time of my inspection. See section on inspections for resident statement as to condition didn't exist during original inspection. Check the records on this unit it is owned by Warren County Community Services it has had a lot of problems in the past the woman is Handicapped and heavy and has trouble

getting around you can see by the past inspections it is very easy to inspect the unit and have handrails and such loose on the next inspection Larry Sergeant is director and has worked with me in the past on this unit it has had a lot of rehab in the past. Each time it failed he responded immediately and repaired the items. How could you possibly look at this units track record and label any findings as preexisting? Or was that much effort put forth was the original inspections pulled to check conditions? Move In Report? Annuals? Specials? any? How can you label something preexisting knowing the implications with out thoroughly researching it. When I was employed by the Housing Authority as a inspector I asked for the previous inspection on all inspections I performed I had them with me at the time of the inspections.

Inspection performed on Unit 25 West First St. Franklin, Ohio

This is one of the most outrages, exaggerated inspections in the bunch. I was told during a meeting with the IG that I was not concerned with the welfare of the residents this unit as a reference was mentioned it was said by the IG that the bath room was falling in that the children could be injured due to my lack of compassion. This greatly upset me, I am a very compassionate man that is what got me into this field in the first place. I went directly to the unit to investigate. I could not believe I had missed a situation endangering children a bath room falling in, well I did not. The truth was that a section of the thin plastic tub surround had come loose after I had inspected the unit ( See residents statements to that affect ) I do not believe even if it had even come completely loose and fallen it could have injured anyone, the entire wall can not weigh more than five pounds dripping wet. If you have not seen a tub surround kit it is a thin piece of plastic you glue over a existing wall. It would be like having a large sheet of paper dropped on your foot. Regardless I didn't miss it. The resident stated that at the time of my inspection they had glued the corner up, wait it gets better the landlord found the problem asked to repair it and the resident asked him if he would wait they were in the process of moving and didn't feel it merited immediate attention, asked if he could wait until after they moved to repair it, the truth is a little different than the story I was told.

This is just a sampling of the inspections I made time in my schedule to investigate I am a busy man I have a business to run but at the same time I have a reputation to uphold. This is the most unjust situation I have ever seen. They investigated with all the time and recourses of the Department Of The Inspector General unlimited recourses, my tax money, and I am left to answer it on my own time on my own resources. As you can see from the statements The preexisting comments are wrong, how did they arrive at this decision? It is evident they have no experience in this type of inspections or they would know almost anything you look at today can change tomorrow. How long am I responsible for a inspection if I check a smoke detector today and it is operating should I go out tomorrow to see if the battery is still in place as soon as dinner time comes it is bound to be pulled. Call a few managers, Owners, Maintenance men and I am sure they will concur the units change like the wind.

I also want to respond to the manor in witch I was treated, the lack of respect by the Keith Wolf. He asked me questions and I responded freely, honestly, I was at ease because I am a honest truth full man I have worked hard for the positions I hold. I have always done what I felt was best for all people in all situations, I have never taken advantage of my position. I had no idea that my words would be taken down in a court room type environment and that statements would be taken out of context. He was unprofessional as to statements he made to me like " I bet you would like to reach across this table and hit me? Wouldn't ya?" That was definitely a baiting question, I can just imagine what he would have wrote if I had said yes, But I did not I responded with " I have worked with people long enough to know you object to the position not to the person " I feel he was over zealous, arrogant, a little to much authority for such a young man. Maybe in time with supervision but he is to green to have this type of position that his actions can affect so many. I feel a lot of the problem was a personality conflict he went out of his way to try and find fault with me. I

don't think he got the respect from me that he thought he deserved well I'm from the old school you don't get promoted to a position of respect, you earn it by the way you treat those around you. Check with his supervisor, pass this on to him if he is perceptive at all, knowing his staff he can read between the lines, I'm sure this is not the first time he has had this type of problem out of him. In regards to the comment he made that I was working for the landlords I have a statement from Mr. #####. I will reiterate what I said in case it was misconstrued. It was in the middle of winter I inspected a unit it was a special Inspection for a problem with the heating system. It was a boiler system the bull valve was sticking, out of concern on my way home I called Mr. ##### and told him what had went wrong with the unit and the part number of the bull valve I explained it was a easy operation that one of his men could change it out flush the system and get it back in service so that the residents would have heat. He asked me if I would change it for him he said he didn't have anyone that could do it. ##### is a old friend of my Father and he is sick in bed has been for some time, my father has passed on now, but they were good friends, I would never do anything I felt was against regulations to do. All things considered here I have a resident with no heat, a old friend of my fathers that needed help, its the middle of winter it would be extremely unlikely you could get a HVAC company in this town to drop what he was doing to help, what would you do? I turned around went back got a bull valve and replaced it. I got a second call from him a couple of days later having problems again with the unit I went to look at it and found what had caused the bull valve to stop up the boiler tank was split and starting to leak, I went picked up a boiler on the way to Indiana to take my son to school and brought it back and installed it for him. The Director confronted me and said it could be construed as a conflict of interest and would I agree not to put my self in this position again. I did not agree that it was a conflict of interest but I did agree not to put my self in this position again. This was during my last contract with the Housing Authority During this contract we have had no such situations. As things usually go I was contacted tonight by Miss ##### during the typing of this letter she asked me if I could take a look at a furnaces in one of there units. I regretfully explained to her what all had transpired since I last saw them and that I was obligated by my words not to work on any units that were on the program and with embarrassment I asked her to ask ##### if he was up to writing a statement to Warren Metro explaining the situation that had occurred.

Thank you for taking the time to read my statement.

Sincerely,

William Mark Harrison

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